Financial Section

Independent Auditor's Report

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Ms. Sandra J. Matheson
Department of Retirement Systems
Olympia, Washington

We have audited the accompanying financial statements (including the individual fund financial statements) of the Washington State Department of Retirement Systems as of and for the year ended June 30, 2005. The Department of Retirement Systems is a part of the State of Washington's primary government. These financial statements are the responsibility of the Department of Retirement Systems' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Washington State Department of Retirement Systems' June 30, 2004, financial statements and in our report dated November 19, 2004, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2005 financial statements referred to above present fairly, in all material respects, the financial position of the Washington State Department of Retirement Systems as of June 30, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the financial statements present fairly, in all material respects, the financial position of each of the individual funds of the Washington State Department of Retirement Systems as of June 30, 2005, and the results of operations of such funds for the year then ended in conformity with accounting principles generally accepted in the United States.

The accompanying management discussion and analysis and required supplementary information listed in the accompanying table of contents is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supporting schedules and the statement of changes in assets and liabilities – dependent care agency fund as listed in the accompanying table of contents are presented for the purposes of additional analysis and are not a required part of the financial statements of the Washington State Department of Retirement Systems. Such information has been subject to the auditing procedures applied in the audit of the financial statements and in our opinion, is fairly stated in all material respects in relation to the financial statements of each of the respective individual funds taken as a whole.

The introductory, actuarial, investment, and statistical sections of this report are not required parts of the financial statements, and we did not audit or apply limited procedures to such information and do not express any assurance on such information.

Peterson Sullivan PLLC

November 17, 2005

Management's Discussion and Analysis

This discussion and analysis of the Washington State Department of Retirement Systems (DRS) financial performance provides an overview of DRS' financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the Letter of Transmittal beginning on page 10 and DRS' financial statements, which begin on page 27 of this report.

FINANCIAL HIGHLIGHTS

The following financial highlights occurred during the fiscal year ended June 30, 2005:

- The combined plan net assets of all the pension funds administered by DRS increased by $4,444.0 million during Fiscal Year 2005.
- The covered payroll requiring both employee and employer pension contributions reported during the year totaled $13,317.9 million, representing an increase of 4%. Employee contributions increased by 4% and employer contributions increased by 5%.
- Net investment earnings (net appreciation in the fair value of investments, plus interest and dividend income, less investment expenses) decreased by 9% compared to last fiscal year.
- Pension benefits paid to retirees and beneficiaries increased $137.8 million bringing the total benefit payments to $2,078.3 million. Refunds of contributions paid to former retirement system members upon termination of employment increased from $183.9 million to $210.0 million.
- Administrative expenses totaled $25.4 million, a decrease of $0.1 million from last fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the DRS basic financial statements, which consist of the following components: basic financial statements, notes to the financial statements, required supplementary information, and other supporting schedules.

Basic Financial Statements

The basic financial statements presented for the fiduciary funds are fund financial statements and include a Statement of Plan Net Assets and a Statement of Changes in Plan Net Assets. The fiduciary funds include defined benefit and defined contribution pension trust funds, the deferred compensation program trust fund, and the dependent care assistance program agency fund. The Statement of Plan Net Assets presented on pages 27-30 reports the assets, liabilities and resulting net assets available for pension and other benefits as of June 30, 2005. The Statement of Changes in Plan Net Assets presented on pages 31-34 reports the additions to, deductions from, and resulting net change in net assets for the fiscal year ending June 30, 2005.

The basic financial statements presented for the governmental fund include a Balance Sheet/Statement of Net Assets and a Statement of Revenues, Expenditures and Changes in Fund Balance/Statement of Activities. The governmental fund administered by DRS is a special revenue fund used to account for the administrative revenues and operating expenditures incurred in administering the dependent care assistance program. The Balance Sheet/Statement of Net Assets presented on page 35 has three separate columns: Balance Sheet, Adjustments, and Statement of Net Assets. The "Balance Sheet" column presents the assets, liabilities, and fund balance using the current financial resources measurement focus and the modified accrual basis of accounting. The "Statement of Net Assets" column presents the difference between assets and liabilities as net assets and uses the economic resources measurement focus and accrual basis of accounting. The "Adjustments" column displays the changes needed to adjust the Balance Sheet line items to the line items in the Statement of Net Assets. This statement reports the assets, liabilities and fund balance/net assets for the special revenue fund as of June 30, 2005. The Statement of Revenues, Expenditures and Changes in Fund Balance/Statement of Activities presented on page 36 has three separate columns: Statement of Revenues, Expenditures and Changes in Fund Balance; Adjustments; and Statement of Activities. The "Statement of Revenues, Expenditures, and Changes in Fund Balance" column presents the inflows, outflows and balances of current financial resources using the current financial resources measurement focus and the modified accrual basis of accounting. The "Statement of Activities" column is presented using the economic resources measurement focus and accrual basis of accounting. The "Adjustments" column displays the changes needed to adjust the Statement of Revenues, Expenditures and Changes in Fund Balance line items to the line items in the Statement of Activities. This statement reports the revenues, expenditures, and resulting fund balance/net assets for the special revenue fund for the fiscal year ending June 30, 2005.

Notes to the Financial Statements

The notes to the financial statements presented on pages 37-64 of this report are an integral part of the financial statements and include additional information not readily evident in the statements themselves. Note 1 provides a summary of significant accounting policies and plan asset matters including the reporting entity, measurement focus, basis of accounting, investments, reserves, capital assets, long-term liabilities, financial statement formatting, and any accounting and reporting changes. Note 2 provides a general description of DRS, plan descriptions, and funding policy.

Required Supplementary Information

Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect the plan's ongoing plan perspective. The required supplementary information consists of two historical trend schedules and related notes. The Schedules of Funding Progress presented on pages 65-66 include historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits when due. The Schedule of Contributions from Employers and Other Contributing Entities presented on page 67 includes historical trend information about the annual required contributions of employers and the contributions made by employers in relation to this requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans. The Notes to the Required Supplementary Information presented on pages 68-69 accompany the two trend schedules and summarize the actuarial and economic methods and significant assumptions used for the most recent year.

Supporting Schedules and Other Financial Information

These schedules and the Statement of Changes in Assets and Liabilities--Dependent Care Agency Fund are presented on pages 70-73 and they provide additional detailed information useful in evaluating the condition of the plans administered by DRS. These schedules include information on administrative expenses, investment expenses, payments to consultants, and other additional information.

FINANCIAL ANALYSIS OF DRS FUNDS

Analysis of Net Assets – Fiduciary Funds

(dollars in millions)

Net Assets	Fiscal Year 2005	Fiscal Year 2004	Increase (Decrease) Amount	Increase (Decrease) Percentage
Assets				
Cash and Pooled Investments	$47.2	$47.9	$(0.7)	(1%)
Receivables	265.3	269.7	(4.4)	(2%)
Capital Assets, Net of Depreciation	0.8	1.1	(0.3)	(27%)
Investments, Noncurrent	55,348.0	49,843.4	5,504.6	11%
Other Assets	1.1	1.2	(0.1)	(8%)
Total Assets	55,662.4	50,163.3	5,499.1	11%
Liabilities				
Obligations Under Security Lending Agreements	4,365.3	3,310.0	1,055.3	32%
Other Short-Term Liabilities	113.0	113.1	(0.1)	0%
Long-Term Obligations	1.1	1.2	(0.1)	(8%)
Total Liabilities	4,479.4	3,424.3	1,055.1	31%
Total Net Assets	$51,183.0	$46,739.0	$4,444.0	10%

Total trust fund assets as of June 30, 2005 were $55,662.4 million and were mostly comprised of investments and contributions due from employers. This was an increase of $5,499.1 million or 11% over the last fiscal year, and was primarily due to increased investment earnings in the fixed income and public equity asset classes.

Total trust fund liabilities as of June 30, 2005 were $4,479.4 million and were mostly comprised of obligations under securities lending. This was an increase of $1,055.1 million or

31% over the last fiscal year, and was primarily due to an increase in obligations under securities lending agreements, resulting from increased market demand for these investment products.

Total combined trust fund plan net assets as of June 30, 2005 were $51,183.0 million, which was an increase of $4,444.0 million or 10% over the last fiscal year.

Analysis of Changes in Net Assets – Fiduciary Funds

(dollars in millions)

Changes in Net Assets	Fiscal Year 2005	Fiscal Year 2004	Increase (Decrease) Amount	Increase (Decrease) Percentage
Additions				
Employer Contributions	$183.3	$174.1	$9.2	5%
Member Contributions	521.4	502.2	19.2	4%
State Contributions	27.8	26.7	1.1	4%
Participant Contributions	160.0	147.7	12.3	8%
Net Investment Income	5,840.3	6,429.1	(588.8)	(9%)
Net Income from Securities Lending Activities	1.4	0.6	0.8	133%
Charges For Services	25.7	28.7	(3.0)	(10%)
Transfers from Other Pension Plans	5.5	25.4	(19.9)	(78%)
Other Additions	2.6	2.9	(0.3)	(10%)
Total Additions	6,768.0	7,337.4	(569.4)	(8%)
Deductions				
Benefits	2,078.3	1,940.5	137.8	7%
Refunds of Contributions	210.0	183.9	26.1	14%
Transfers to Other Pension Plans	5.5	25.4	(19.9)	(78%)
Transfers to State General Fund	4.8	0.8	4.0	500%
Administrative Expenses	25.4	25.3	0.1	0%
Total Deductions	2,324.0	2,175.9	148.1	7%
Increase/(Decrease) in Net Assets	$4,444.0	$5,161.5	$(717.5)	(14%)
Net Assets - Beginning of Year	46,739.0	41,577.5	5,161.5	12%
Net Assets - End of Year	$51,183.0	$46,739.0	$4,444.0	10%

Additions to the retirement trust funds primarily consist of contributions from employers, active system members, the state, and investment earnings. Additions to the deferred compensation trust fund primarily consist of participant contributions and investment earnings. Total trust fund additions (excluding plan transfers) for Fiscal Year 2005 amounted to $6,762.5 million, a decrease of $549.5 million or 7.5% from Fiscal Year 2004. This was primarily due to investment returns falling from 16.2% in 2004 to 13.3% in 2005.

Deductions to the retirement trust funds primarily consist of the payment of benefits to retirees and beneficiaries, the refund of contributions to former retirement system members, and the cost of administering the retirement systems. Benefit payments to members include both pension and annuity benefits. Expenses for the management of trust funds are incurred by the Washington State Investment Board and funded from earnings on investments. Deductions to the deferred compensation trust fund primarily consist of refunds paid to plan participants and administrative expenses. Total trust fund deductions (excluding plan transfers) for Fiscal Year 2005 totaled $2,318.5 million, an increase of $168.0 million or 8% over Fiscal Year 2004. This was primarily due to an increase in benefits paid to retirees and beneficiaries. Benefit payments increased by 7% as a result of an increase in the number of retirees. Administrative Expenses for Fiscal Year 2005 totaled approximately $25.4 million, an increase of less than 1% from last fiscal year. The increase in expenses was due to increased data processing service costs.

Transfers from Other Pension Plans and Transfers to Other Pension Plans represent transfers between the various pension plans administered by DRS. Total plan transfers for Fiscal Year 2005 amounted to $5.5 million, a decrease of $19.9 million or 78% from last fiscal year. The transfers for this fiscal year were lower due to the implementation of PERS Plan 3 in Fiscal Year 2003. The PERS Plan 2 members that opted to transfer to PERS Plan 3 accounted for $609.2 million of the total transfers during Fiscal Year 2003. These PERS Plan 3 transfers continue to level off with each succeeding year since 2003. Fiscal Year 2005's activity was more representative of routine transfer activity.

Transfers to the State General Fund were $4.8 million in Fiscal Year 2005 and $0.8 million in the previous year. These operating budget transfers, totaling $5.5 million, were authorized by ESHB 2459, Chapter 276, Laws of 2004, pursuant to RCW 43.135.035 (5).

Analysis of Net Assets – Governmental Fund

(dollars in thousands)

Net Assets	Fiscal Year 2005	Fiscal Year 2004	Increase (Decrease) Amount	Increase (Decrease) Percentage
Assets				
Cash and Pooled Investments	$82	$90	(8)	(9%)
Total Assets	82	90	(8)	(9%)
Liabilities				
Due to Other Agencies	1	2	(1)	(50%)
Accounts Payable & Accrued Liabilities	6	5	1	20%
Total Liabilities	7	7	-	0%
Total Net Assets	$75	$83	$(8)	(10)%

Governmental fund total assets as of June 30, 2005 were $82,000, and were entirely comprised of cash. This was a decrease of $8,000 from last fiscal year and was due to a decrease in the amount of cash on hand at year end.

Governmental fund total liabilities as of June 30, 2005 were $7,000 and were mostly comprised of accrued salaries and administrative costs. There was no change in the amount of total liabilities from last fiscal year.

Analysis of Changes in Net Assets – Governmental Fund

(dollars in thousands)

Changes in Net Assets	Fiscal Year 2005	Fiscal Year 2004	Increase (Decrease) Amount	Increase (Decrease) Percentage
Revenues				
Charges For Services	$173	$179	$(6)	(3%)
Total Revenues	173	179	(6)	(3%)
Expenses				
Administrative Expenses	181	177	4	2%
Increase/Decrease in Net Assets	$(8)	$2	$(10)	(500%)
Net Assets - Beginning of Year	83	81	2	2%
Net Assets - End of Year	$75	$83	$(8)	(10%)

Governmental fund revenues consist of charges for services. DRS bills state agencies with participating employees a percentage of the payroll taxes saved by the agency and uses these amounts (charges for services) to operate the program. Total governmental fund revenues for Fiscal Year 2005 amounted to $173,000, a decrease of $6,000 or 3% from Fiscal Year 2004. This was due to a decrease in the number of participating employees.

The only expenses for the governmental fund are for the cost of administering the program. Administrative expenses for this fund include personnel expenses, goods and services, travel, and other miscellaneous expenses. Administrative Expenses for Fiscal Year 2005 totaled $181,000, an increase of $4,000 or 2% from last fiscal year. This was primarily due to an increase in personnel expenses.

CAPITAL ASSETS

DRS' investment in capital assets for its fiduciary activities as of June 30, 2005, was $2.8 million, with accumulated depreciation of $2.0 million, leaving a net book value of $0.8 million. This amount represents a decrease of 27% from last year, which was mainly due to an increase in the disposal of computer equipment. This investment in capital assets includes furnishings and equipment, and improvements other than buildings. Additional information on DRS' capital assets can be found in section H of Note 1 to the financial statements.

OTHER LONG-TERM OBLIGATIONS

At year-end, DRS had $1.1 million in outstanding general long-term obligations, which represented a 3% decrease from the prior year. These long-term obligations represent DRS' liability for accumulated annual and sick leave. Additional information on DRS' long-term debt obligations can be found in section J of Note 1 to the financial statements.

CONTACTING DRS' FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of DRS' finances. If you have questions about this report or need additional financial information, contact the Department of Retirement Systems' Administrative Services Division, P. O. Box 48380, Olympia, WA 98504-8380.

Financial Statements

Statement of Plan Net Assets
Pension and Other Employee Benefit Trust Funds by Plan and Agency Fund
As of June 30, 2005 (page 1 of 4)
(expressed in thousands)

	Pension Trust				
	PERS Plan 1	PERS Plan 2/3	PERS Plan 3 Defined Contribution	SERS Plan 2/3	SERS Plan 3 Defined Contribution
ASSETS					
Cash and Pooled Investments	$ 10,196	$ 7,100	$ 205	$ 933	$ 754
Receivables					
Due from Other Governments	3,935	8,042	3,168	1,167	4,137
Member Accounts Receivable (Net of Allowance)	559	70	-	2	-
Interest and Dividends	27,614	34,637	1,463	4,928	1,482
Investment Trades Pending Receivable - Short Term	10,289	12,966	548	1,843	555
Due from Pension Funds	431	609	4,350	852	4,455
Due from Other Washington State Agencies	3	3	-	-	-
Other Receivables - Short Term	1	1	-	-	-
Total Receivables	42,832	56,328	9,529	8,792	10,629
Capital Assets, net of depreciation	189	190	-	12	-
Investments, Noncurrent					
Equity in CTF	10,428,624	13,142,000	555,289	1,867,697	562,020
Money Market Investments	445	4,292	181	3,142	945
Other Noncurrent Investments	1,605	718	427,283	238	204,028
Total Investments, Noncurrent	10,430,674	13,147,010	982,753	1,871,077	766,993
Other Assets	277	278	-	17	-
TOTAL ASSETS	10,484,168	13,210,906	992,487	1,880,831	778,376
LIABILITIES					
Obligations under Security Lending Agreements	883,480	1,111,928	46,932	158,123	47,502
Accounts Payable	10,085	5,297	325	699	246
Investment Trades Pending Payable - Short Term	7,511	9,465	400	1,345	405
Due to Other Governments	5,982	720	-	105	-
Due to Pension Funds	112	5,097	176	4,651	825
Due to Other Washington State Agencies	151	93	-	10	-
Deposits Payable - Short Term	2	1	-	-	-
Other Short-Term Liabilities	1	-	-	-	-
Other Long-Term Obligations	277	278	-	17	-
Accrued Salaries	134	133	-	9	-
Deferred Revenue	108	314	-	17	-
TOTAL LIABILITIES	907,843	1,133,326	47,833	164,976	48,978
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS (Schedules of funding progress for pension benefits are presented beginning on page 65.)	$ 9,576,325	$ 12,077,580	$ 944,654	$ 1,715,855	$ 729,398

The accompanying notes are an integral part of this statement.

Financial Statements

Statement of Plan Net Assets
Pension and Other Employee Benefit Trust Funds by Plan and Agency Fund
As of June 30, 2005 (page 2 of 4)
(expressed in thousands)

	Pension Trust				
	TRS Plan 1	TRS Plan 2/3	TRS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2
ASSETS					
Cash and Pooled Investments	$ 8,571	$ 1,724	$ 3,029	$ 3,343	$ 1,820
Receivables					
Due from Other Governments	3,323	3,058	16,111	-	5,384
Member Accounts Receivable (Net of Allowance)	387	3	-	55	9
Interest and Dividends	23,340	12,227	4,149	14,491	9,762
Investment Trades Pending Receivable - Short Term	8,699	4,572	1,552	5,409	3,651
Due from Pension Funds	371	3,693	12,905	213	94
Due from Other Washington State Agencies	2	1	-	1	1
Other Receivables - Short Term	1	-	-	-	-
Total Receivables	36,123	23,554	34,717	20,169	18,901
Capital Assets, net of depreciation	163	82	-	94	41
Investments, Noncurrent					
Equity in CTF	8,817,460	4,634,422	1,573,234	5,482,122	3,700,914
Money Market Investments	4,016	9,078	3,082	351	7,915
Other Noncurrent Investments	1,235	503	1,187,162	530	184
Total Investments, Noncurrent	8,822,711	4,644,003	2,763,478	5,483,003	3,709,013
Other Assets	238	121	-	137	60
TOTAL ASSETS	8,867,806	4,669,484	2,801,224	5,506,746	3,729,835
LIABILITIES					
Obligations under Security Lending Agreements	746,872	392,399	132,968	464,100	313,081
Accounts Payable	7,844	1,925	611	3,693	1,433
Investment Trades Pending Payable - Short Term	6,350	3,338	1,133	3,948	2,666
Due to Other Governments	5,232	125	-	54	-
Due to Pension Funds	119	13,361	3,505	9	145
Due to Other Washington State Agencies	81	34	-	37	26
Deposits Payable - Short Term	-	-	-	-	-
Other Short-Term Liabilities	-	-	-	-	-
Other Long-Term Obligations	238	121	-	137	60
Accrued Salaries	113	57	-	66	29
Deferred Revenue	315	81	-	-	12
TOTAL LIABILITIES	767,164	411,441	138,217	472,044	317,452
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS (Schedules of funding progress for pension benefits are presented beginning on page 65.)	$ 8,100,642	$ 4,258,043	$ 2,663,007	$ 5,034,702	$ 3,412,383

The accompanying notes are an integral part of this statement.

Financial Statements

Statement of Plan Net Assets
Pension and Other Employee Benefit Trust Funds by Plan and Agency Fund
As of June 30, 2005 (page 3 of 4)
(expressed in thousands)

	Pension Trust				
	WSPRS Plan 1/2	JRS	JUDGES	JRA Defined Contribution	Deferred Compensation
ASSETS					
Cash and Pooled Investments	$ 859	$ 493	$ 4,285	$ 7	$ 3,326
Receivables					
Due from Other Governments	55	11	-	-	-
Member Accounts Receivable (Net of Allowance)	-	-	-	-	782
Interest and Dividends	2,081	6	8	-	6
Investment Trades Pending Receivable - Short Term	777	-	-	-	-
Due from Pension Funds	27	-	-	-	-
Due from Other Washington State Agencies	-	-	-	-	1
Other Receivables - Short Term	-	-	-	-	-
Total Receivables	2,940	17	8	-	789
Capital Assets, net of depreciation	12	-	-	-	-
Investments, Noncurrent					
Equity in CTF	787,872	-	-	-	-
Money Market Investments	116	2,001	-	-	-
Other Noncurrent Investments	109	80	648	14,515	1,921,859
Total Investments, Noncurrent	788,097	2,081	648	14,515	1,921,859
Other Assets	18	-	-	-	-
TOTAL ASSETS	791,926	2,591	4,941	14,522	1,925,974
LIABILITIES					
Obligations under Security Lending Agreements	66,728	81	647	1	503
Accounts Payable	578	115	8	-	12
Investment Trades Pending Payable - Short Term	567	-	-	-	-
Due to Other Governments	163	37	3	-	-
Due to Pension Funds	-	-	-	-	-
Due to Other Washington State Agencies	11	-	-	-	38
Deposits Payable - Short Term	-	-	-	-	-
Other Short-Term Liabilities	-	-	-	-	9
Other Long-Term Obligations	17	-	-	-	-
Accrued Salaries	8	-	-	-	34
Deferred Revenue	-	-	-	-	-
TOTAL LIABILITIES	68,072	233	658	1	596
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS (Schedules of funding progress for pension benefits are presented beginning on page 65.)	$ 723,854	$ 2,358	$ 4,283	$ 14,521	$ 1,925,378

The accompanying notes are an integral part of this statement.

Financial Statements

Statement of Plan Net Assets
Pension and Other Employee Benefit Trust Funds by Plan and Agency Fund
As of June 30, 2005 (page 4 of 4)
(expressed in thousands)

	Agency Dependent Care	Totals June 30, 2005	Totals June 30,2004
ASSETS			
Cash and Pooled Investments	$ 547	$ 47,192	$ 47,951
Receivables			
Due from Other Governments	-	48,391	48,028
Member Accounts Receivable (Net of Allowance)	-	1,867	2,236
Interest and Dividends	-	136,194	126,731
Investment Trades Pending Receivable - Short Term	-	50,861	65,791
Due from Pension Funds	-	28,000	26,870
Due from Other Washington State Agencies	-	12	22
Other Receivables - Short Term	-	3	3
Total Receivables	-	265,328	269,681
Capital Assets, net of depreciation	-	783	1,076
Investments, Noncurrent			
Equity in CTF	-	51,551,654	46,390,724
Money Market Investments	-	35,564	44,356
Other Noncurrent Investments	-	3,760,697	3,408,358
Total Investments, Noncurrent	-	55,347,915	49,843,438
Other Assets	-	1,146	1,181
TOTAL ASSETS	547	55,662,364	50,163,327
LIABILITIES			
Obligations under Security Lending Agreements	-	4,365,345	3,310,074
Accounts Payable	-	32,871	21,622
Investment Trades Pending Payable - Short Term	-	37,128	51,177
Due to Other Governments	-	12,421	10,679
Due to Pension Funds	-	28,000	26,870
Due to Other Washington State Agencies	-	481	332
Deposits Payable - Short Term	-	3	3
Other Short-Term Liabilities	547	557	492
Other Long-Term Obligations	-	1,145	1,181
Accrued Salaries	-	583	550
Deferred Revenue	-	847	1,399
TOTAL LIABILITIES	547	4,479,381	3,424,379
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS (Schedules of funding progress for pension benefits are presented beginning on page 65.)	$ 0	$ 51,182,983	$ 46,738,948

The accompanying notes are an integral part of this statement.

Statement of Changes in Plan Net Assets
Pension Trust Funds by Plan
For the Year Ended June 30, 2005 (page 1 of 4)
(expressed in thousands)

	Pension Trust				
ADDITIONS	**PERS Plan 1**	**PERS Plan 2/3**	**PERS Plan 3 Defined Contribution**	**SERS Plan 2/3**	**SERS Plan 3 Defined Contribution**
Retirement Contributions					
Employer	$ 22,360	$ 74,720	$ -	$ 10,160	$ -
Plan Member	52,246	63,806	59,029	4,166	46,738
State	-	-	-	-	-
Plan Member Restorations	5,004	3,403	-	259	-
Total Retirement Contributions	79,610	141,929	59,029	14,585	46,738
Participant Contributions	-	-	-	-	-
Investment Income					
Investing Activities:					
Net Appreciation (Depreciation) in Fair Value of Investments	940,878	1,144,775	70,343	163,113	57,716
Interest	112,703	135,443	6,693	20,198	5,913
Dividends	113,804	139,352	5,649	19,871	5,760
Less: Investment Expense	(3,879)	(3,827)	(815)	(524)	(438)
Net Income from Investing Activities	1,163,506	1,415,743	81,870	202,658	68,951
Securities Lending Activities:					
Securities Lending Income	18,565	23,395	989	3,323	1,003
Less: Costs of Lending Securities	(18,274)	(24,002)	-	(4,258)	-
Net Income from Securities Lending Activities	291	(607)	989	(935)	1,003
Total Net Investment Income	1,163,797	1,415,136	82,859	201,723	69,954
Charges For Services	4,995	6,139	500	1,044	175
Transfers from Other Pension Plans	242	254	1,337	1,959	290
Miscellaneous	49	67	-	13	-
TOTAL ADDITIONS	1,248,693	1,563,525	143,725	219,324	117,157
DEDUCTIONS					
Benefits	880,874	102,742	-	10,114	-
Refunds of Contributions	5,143	24,086	25,533	2,191	21,478
Annuity Payments	-	-	-	-	-
Transfers to Other Pension Plans	39	3,462	162	333	148
Transfer to State General Fund	927	1,256	-	235	-
Administrative Expenses	4,903	5,960	500	990	175
TOTAL DEDUCTIONS	891,886	137,506	26,195	13,863	21,801
NET INCREASE (DECREASE)	356,807	1,426,019	117,530	205,461	95,356
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Beginning of Year: July 1	9,219,518	10,651,561	827,124	1,510,394	634,042
End of Year: June 30	$ 9,576,325	$12,077,580	$ 944,654	$ 1,715,855	$ 729,398

The accompanying notes are an integral part of this statement.

Statement of Changes in Plan Net Assets
Pension Trust Funds by Plan
For the Year Ended June 30, 2005 (page 2 of 4)
(expressed in thousands)

	Pension Trust			
ADDITIONS	**TRS Plan 1**	**TRS Plan 2/3**	**TRS Plan 3 Defined Contribution**	**LEOFF Plan 1**
Retirement Contributions				
Employer	$ 8,793	$ 33,767	$ -	$ 9
Plan Member	38,087	3,549	183,645	(2)
State	-	-	-	-
Plan Member Restorations	4,341	471	-	1
Total Retirement Contributions	51,221	37,787	183,645	8
Participant Contributions	-	-	-	-
Investment Income				
Investing Activities:				
Net Appreciation (Depreciation) in Fair Value of Investments	793,617	404,585	208,876	488,672
Interest	94,994	50,376	15,709	58,150
Dividends	95,949	49,317	15,967	59,226
Less: Investment Expense	(3,250)	(1,215)	(2,264)	(1,897)
Net Income from Investing Activities	981,310	503,063	238,288	604,151
Securities Lending Activities:				
Securities Lending Income	15,697	8,247	2,805	9,759
Less: Costs of Lending Securities	(15,451)	(10,878)	-	(9,606)
Net Income from Securities Lending Activities	246	(2,631)	2,805	153
Total Net Investment Income	981,556	500,432	241,093	604,304
Charges For Services	4,225	3,317	175	2,624
Transfers from Other Pension Plans	168	500	604	-
Miscellaneous	41	39	-	26
TOTAL ADDITIONS	1,037,211	542,075	425,517	606,962
DEDUCTIONS				
Benefits	680,003	17,118	-	279,957
Refunds of Contributions	1,180	3,110	35,582	5
Annuity Payments	61,115	-	-	-
Transfers to Other Pension Plans	33	618	634	39
Transfer to State General Fund	784	660	-	487
Administrative Expenses	3,894	3,027	175	2,455
TOTAL DEDUCTIONS	747,009	24,533	36,391	282,943
NET INCREASE (DECREASE)	290,202	517,542	389,126	324,019
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of Year: July 1	7,810,440	3,740,501	2,273,881	4,710,683
End of Year: June 30	$ 8,100,642	$ 4,258,043	$ 2,663,007	$ 5,034,702

The accompanying notes are an integral part of this statement.

Statement of Changes in Plan Net Assets
Pension Trust Funds by Plan
For the Year Ended June 30, 2005 (page 3 of 4)
(expressed in thousands)

	Pension Trust			
ADDITIONS	**LEOFF Plan 2**	**WSPRS Plan 1/2**	**JRS**	**Judges**
Retirement Contributions				
Employer	$ 32,780	$ -	$ 155	$ -
Plan Member	53,913	1,316	155	-
State	21,266	-	5,995	500
Plan Member Restorations	645	-	-	-
Total Retirement Contributions	108,604	1,316	6,305	500
Participant Contributions	-	-	-	-
Investment Income				
Investing Activities:				
Net Appreciation (Depreciation) in Fair Value of Investments	318,620	69,673	2	13
Interest	37,415	8,260	76	97
Dividends	38,851	8,455	-	-
Less: Investment Expense	(1,860)	(260)	(5)	(24)
Net Income from Investing Activities	393,026	86,128	73	86
Securities Lending Activities:				
Securities Lending Income	6,588	1,403	-	-
Less: Costs of Lending Securities	(6,485)	(1,381)	-	-
Net Income from Securities Lending Activities	103	22	-	-
Total Net Investment Income	393,129	86,150	73	86
Charges For Services	1,778	377	1	2
Transfers from Other Pension Plans	17	98	-	-
Miscellaneous	17	4	-	-
TOTAL ADDITIONS	503,545	87,945	6,379	588
DEDUCTIONS				
Benefits	8,978	27,606	8,761	641
Refunds of Contributions	7,765	173	-	13
Annuity Payments	-	-	-	-
Transfers to Other Pension Plans	1	-	-	-
Transfer to State General Fund	330	70	-	1
Administrative Expenses	1,659	358	1	2
TOTAL DEDUCTIONS	18,733	28,207	8,762	657
NET INCREASE (DECREASE)	484,812	59,738	(2,383)	(69)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of Year: July 1	2,927,571	664,116	4,741	4,352
End of Year: June 30	$ 3,412,383	$ 723,854	$ 2,358	$ 4,283

The accompanying notes are an integral part of this statement.

Statement of Changes in Plan Net Assets
Pension Trust Funds by Plan
For the Year Ended June 30, 2005 (page 4 of 4)
(expressed in thousands)

	Pension Trust		Totals	
ADDITIONS	**JRA Defined Contribution**	**Deferred Compensation**	**June 30, 2005**	**June 30, 2004**
Retirement Contributions				
Employer	$ 602	$ -	$ 183,346	$ 174,090
Plan Member	601	-	507,249	490,343
State	-	-	27,761	26,688
Plan Member Restorations	-	-	14,124	11,897
Total Retirement Contributions	1,203	-	732,480	703,018
Participant Contributions	-	160,029	160,029	147,660
Investment Income				
Investing Activities:				
Net Appreciation (Depreciation) in Fair Value of Investments	437	55,007	4,716,327	5,440,683
Interest	215	27,981	574,223	557,928
Dividends	126	20,098	572,425	457,328
Less: Investment Expense	(18)	(2,359)	(22,635)	(26,815)
Net Income from Investing Activities	760	100,727	5,840,340	6,429,124
Securities Lending Activities:				
Securities Lending Income	-	-	91,774	31,894
Less: Costs of Lending Securities	-	-	(90,335)	(31,305)
Net Income from Securities Lending Activities	-	-	1,439	589
Total Net Investment Income	760	100,727	5,841,779	6,429,713
Charges For Services	-	335	25,687	28,714
Transfers from Other Pension Plans	-	-	5,469	25,418
Miscellaneous	15	2,302	2,573	2,874
TOTAL ADDITIONS	1,978	263,393	6,768,017	7,337,397
DEDUCTIONS				
Benefits	411	-	2,017,205	1,888,309
Refunds of Contributions	-	83,741	210,000	183,903
Annuity Payments	-	-	61,115	52,237
Transfers to Other Pension Plans	-	-	5,469	25,418
Transfer to State General Fund	-	-	4,750	750
Administrative Expenses	-	1,344	25,443	25,321
TOTAL DEDUCTIONS	411	85,085	2,323,982	2,175,938
NET INCREASE (DECREASE)	1,567	178,308	4,444,035	5,161,459
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of Year: July 1	12,954	1,747,070	46,738,948	41,577,489
End of Year: June 30	$ 14,521	$ 1,925,378	$51,182,983	$46,738,948

The accompanying notes are an integral part of this statement.

Balance Sheet/Statement of Net Assets
Special Revenue Fund
As of June 30, 2005
(expressed in thousands)

	Dependent Care Administrative Fund		
	Balance Sheet	Adjustments	Statement of Net Assets
ASSETS			
Cash and Pooled Investments	$ 82	$ -	$ 82
TOTAL ASSETS	82	-	82
LIABILITIES			
Accounts Payable	1	-	1
Due to Other Washington State Agencies	1	-	1
Accrued Salaries	5	-	5
TOTAL LIABILITIES	7	-	7
FUND BALANCE/NET ASSETS:			
Fund Balance:			
Unreserved, Reported in Special Revenue Funds	75	(75)	-
Total Fund Balance	75	(75)	-
TOTAL LIABILITIES AND FUND BALANCE	$ 82		
Net Assets:			
Unrestricted		-	-
TOTAL NET ASSETS		$ (75)	$ 75

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balance/Statement of Activities
Special Revenue Fund
For the Year Ended June 30, 2005
(expressed in thousands)

	Dependent Care Administrative Fund		
REVENUES	**Statement of Revenues, Expenditures and Changes in Fund Balance**	**Adjustments**	**Statement of Activities**
Charges for Services	$ 173	$ -	$ 173
TOTAL REVENUES	173	-	173
EXPENDITURES/EXPENSES			
Current:			
Personnel Services	123	-	123
Goods and Services	53	-	53
Capital Outlays	3	-	3
Miscellaneous	2	-	2
Total Expenditures/Expenses	181	-	181
TOTAL EXPENDITURES/EXPENSES	181	-	181
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(8)	8	-
CHANGE IN NET ASSETS	-	(8)	(8)
FUND BALANCE/NET ASSETS:			
Beginning of Year: July 1	83	-	83
End of Year: June 30	$ 75	$ -	$ 75

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2005

Note 1: Summary of Significant Accounting Policies and Plan Asset Matters

A. Reporting Entity

The Department of Retirement Systems (DRS) is a part of the primary government of the state of Washington. The Governmental Accounting Standards Board has developed criteria relating to elements of financial accountability to be used to determine the reporting entity. Financial accountability is manifest when the primary government appoints a voting majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. An organization is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify that budget, or to set rates or charges without substantive approval by another government. Based on this criteria, DRS is considered part of the state of Washington financial reporting entity and is included in the state's comprehensive annual financial report as the administrator of the pension trust funds.

Copies of the state of Washington's Comprehensive Annual Financial Report may be obtained by writing to:

Washington State Office of Financial Management
300 Insurance Building
P.O. Box 43113
Olympia, WA 98504-3113

The state of Washington, through DRS, administers seven retirement systems for public employees of the state and political subdivisions: the Public Employees' Retirement System, the School Employees' Retirement System, the Teachers' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Washington State Patrol Retirement System, the Judicial Retirement System, and the Judges' Retirement Fund. The Director of DRS is appointed by the Governor. The state Legislature establishes laws pertaining to the creation and administration of all public retirement systems. The members of the public retirement systems together with their employers and the state provide funding for all costs of the systems based upon actuarial valuations. The state establishes benefit levels and approves the actuarial assumptions used in determining contribution levels. Based upon these criteria, DRS views itself as part of the state of Washington's primary government.

B. Basic Financial Statements

Separate financial statements are provided for the fiduciary funds and the governmental fund.

Fiduciary funds report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. DRS' fiduciary funds include the retirement pension trust funds, the deferred compensation trust fund, and the dependent care assistance program agency fund. The statements presented for the fiduciary funds include a Statement of Plan Net Assets and a Statement of Changes in Plan Net Assets. The statements provide a separate column for each plan administered by DRS. The Statement of Plan Net Assets includes information about the assets, liabilities, and net assets for each plan. The Statement of Changes in Plan Net Assets includes information about the additions to, deductions from, and net increase (or decrease) in net assets for each plan for the year.

DRS' governmental fund is a special revenue fund used to account for the administrative revenues and operating expenditures incurred in administering the dependent care program. Special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The statements presented for the special revenue fund include a Balance Sheet/Statement of Net Assets and a Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities. The statements for the special revenue fund are presented following the statements for the fiduciary funds because the fiduciary funds are the main focus of DRS. Since the special revenue fund is a minor administrative fund for DRS, showing this fund on a statement preceding the fiduciary fund statements would improperly put too much focus on it.

The Balance Sheet/Statement of Net Assets for the special revenue fund has three separate columns: Balance Sheet, Adjustments, and Statement of Net Assets. The Balance Sheet column presents the assets, liabilities, and fund balance using the current financial resources measurement focus and the modified accrual basis of accounting. The Statement of Net Assets column presents the difference between assets and liabilities as net assets and uses the economic resources measurement focus and accrual basis of accounting. The Adjustments column contains the reconciliation between these two different bases of accounting.

The Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities for the special revenue fund has three separate columns: Statement of Revenues, Expenditures, and Changes in Fund Balance; Adjustments; and Statement of Activities. The Statement of Revenues, Expenditures, and Changes in Fund Balance column presents the inflows, outflows, and balances of current financial resources using the current financial resources measurement focus and the modified accrual basis of accounting. The Statement of Activities is presented using the economic resources measurement focus and accrual basis of accounting. The Adjustments column contains the reconciliation between these two different bases of accounting.

C. Measurement Focus and Basis of Accounting

DRS' financial statements have been prepared in conformity with generally accepted accounting principles (GAAP). The retirement plans are accounted for in pension trust funds using the flow of economic resources measurement focus and the accrual basis of accounting. Plan member contributions are recognized as revenues in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The deferred compensation plan is accounted for in a pension trust fund using the flow of economic resources measurement focus and the accrual basis of accounting. Participant contributions are recognized as revenues in the period in which the contributions are due. Refunds are recognized when due and payable in accordance with the terms of the plan. DRS maintains an administrative fund to account for the administrative revenues and operating expenditures incurred in administering the deferred compensation plan. Since these costs are incurred in the administration of the deferred compensation plan, they have been reported within the deferred compensation plan.

The dependent care assistance program is accounted for in two separate funds. The administrative revenues and operating expenditures incurred in administering the dependent care program are accounted for in the dependent care administrative fund. This fund is classified as a special revenue fund using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available to finance current expenditures of the fund. The dependent care salary reduction plan is classified as an agency fund and is accounted for using the accrual basis of accounting. Agency funds are custodial in nature and do not measure the results of operations or have a measurement focus.

D. Method Used to Value Investments

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from national security exchanges and security pricing services, or by the respective fund managers for securities that are not actively traded. Privately held mortgages have been valued at cost which approximates fair market value. Certain pension trust fund investments, including real estate and private equity, are valued based on appraisals or by independent advisors. The pension funds have no investments of any commercial or industrial organization whose market value exceeds five percent or more of each plan's net assets.

E. Allocation

DRS maintains an administrative fund to account for the administrative additions and deductions incurred in administering the pension plans (excluding any fees incurred while protecting the pension plans). All additions received are based on a legislatively approved percent of employer contributions. These additions and deductions have been allocated to the pension plans based on asset balance.

DRS maintains a general capital assets fund to account for the capital assets incurred in administering the pension plans. These capital assets have been allocated to the pension plans based on asset balance. DRS also maintains a general long-term obligation fund to account for accumulated compensated absences incurred in administering the pension plans. These general long-term obligations have also been allocated to the pension plans based on asset balance.

F. Deposits, Investments, and Securities Lending

Reporting Changes: DRS implemented a new accounting standard issued by the Governmental Accounting Standards Board (GASB) for the fiscal year ended June 30, 2005. This new standard, Statement No. 40, Deposit and Investment Risk Disclosures (GASB 40), amended and/or superseded certain provisions of Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements) (GASB 3); Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans (GASB 25); and Statement No. 28, Accounting and Financial Reporting For Securities Lending Transactions (GASB 28).

GASB 40 revised the existing requirements regarding disclosure of custodial credit risk required by GASB Statement No. 3 and established new requirements for disclosure regarding credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

Deposits: DRS' deposits are managed by the Office of the State Treasurer (OST) and are entirely insured by the Federal Deposit Insurance Corporation (FDIC) and by the Washington Public Deposit Protection Commission (PDPC). The PDPC constitutes a multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the PDPC's agent in the name of the collateral pool. State law (chapter 43.84.080 RCW) specifies that whenever there is a fund or cash balance in the state treasury more than sufficient to meet the current expenditures properly payable therefrom, the OST may invest or reinvest such portion of such funds or balances as the OST deems expedient. Statute authorizes the OST to buy and sell the following types of instruments: U.S. Government and Agency securities, banker's acceptances, and certificates of deposit with qualified public depositories. Securities underlying repurchase and reverse repurchase agreements are limited to those stated above. DRS receives its proportionate share of investment earnings from surplus balances in the state treasury based upon its daily balance for the period. DRS' deposits are separately displayed on the Statement of Plan Net Assets as cash and pooled investments.

Deposits--Custodial Credit Risk Custodial credit risk is the risk that deposits may not be returned to a depositor in the event of the failure of a financial institution. The OST minimizes custodial credit risk by restrictions set forth in state law. Statutes restrict the OST to deposit funds in financial institutions that are physically located in Washington unless otherwise expressly permitted by statute and authorized by the PDPC. As of June 30, 2005, the carrying amount of DRS' cash and pooled investment deposits is $46.6 million for the pension trust funds, $0.5 million for the dependent care agency fund, and $82,000 for the dependent care special revenue fund, all of which are insured or collateralized.

Investments: The Washington State Investment Board (WSIB) has been authorized by statute as having the investment management responsibility for pension and deferred compensation funds. The WSIB is authorized to invest as provided by statute (chapter 43.33A RCW) and WSIB policy. The WSIB is authorized and invests in the following: U.S. Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. Government and Agency (government sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; non-dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; Washington State Housing Finance Commission (HFC) taxable municipal bonds up to a total of $25.0 million, with a maximum of $10.0 million per year; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to: investment corporations, partnerships, and limited liability companies for venture capital, leveraged buy-outs, real estate, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions.

There were no violations of these investment restrictions during Fiscal Year 2005.

Investments--Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of a fixed income investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investments' full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. The WSIB's fixed income investments are to be actively managed to exceed the return of the Lehman Universal Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2005 the funds' durations of the various fixed income classes were within the duration targets of the Lehman Universal Index.

The Pension Trust funds hold both U.S. agencies and corporate debt variable-rate securities, most of which reset periodically to the market interest rate. Because these securities frequently reprice to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date. In the schedule on page 41, variable-rate securities are presented according to the length of time until the next reset date, rather than the stated maturity. The schedule provides information about the interest rate risks associated with the Pension Trust funds' investments as of June 30, 2005. The schedule also displays various asset classes held by maturity in years and effective durations. The investment types are presented consistent with their separately issued financial statements by investment type.

Investments--Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Pension Trust funds' rated debt investments as of June 30, 2005, were rated by Moody's and/or an equivalent national rating organization. Credit ratings for the Pension Trust funds' rated debt investments as of June 30, 2005 are presented in the schedule on page 42.

Investments--Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The WSIB policy states that no corporate fixed income issue shall exceed 3% of cost at the time of purchase or 6% of market value of the fund thereafter and that no high yield issues exceed 1% of cost or 2% of the market value of the fund. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2005. Additionally, no single investment (other than any issued or explicitly guaranteed by the U.S. government, or involving mutual funds or investment pools) comprised more than five percent of DRS' net investments at the end of Fiscal Year 2005.

Investments-Custodial Credit Risk: Custodial credit risk is the risk that, in the event of failure of the custodian, the WSIB would not be able to recover its investment securities or collateral securities that are in the possession of the custodian. The WSIB has no formal policy regarding custodial credit risk. However, as all of the retirement system assets are registered and held in the State of Washington's name, they are not subject to custodial credit risk.

Investment Maturities

(expressed in thousands)

Investment Type	Fair Value	Less than one year	1-5 years	5-10 years	More than 10 years	Effective Duration
Asset Backed Securities	$ 29,898	$ 27,372	$ 2,526	$ -	$ -	0.6
Certificates of Deposit - *Securities Lending*	11,947	11,947	-	-	-	0.1
Collateralized Mortgage Backed Securities	404,561	-	176,955	227,606	-	4.1
Corporate Bonds-Domestic	4,025,760	434,379	1,477,856	1,431,158	682,367	5.4
Corporate Stock-Foreign	4,967,248	-	-	-	-	n/a
Government Securities-Domestic:						
U.S. Government Treasuries	784,328	-	224,161	135,061	425,106	9.6
Treasury Inflation Protected Securities	2,370,935	-	1,615,081	755,854	-	2.9
Mortgages:						
Collateralized Mortgage Obligations	971,681	95,322	417,142	362,923	96,294	3.3
Pass Throughs	2,532,160	-	2,257,674	274,486	-	2.6
Non-Standard Mortgages	5,327	-	1,415	3,912	-	4.3
Repurchase Agreements - *Securities Lending*	50,297	50,297	-	-	-	0.1
Variable Rate Notes	333,887	70,200	263,687	-	-	0.2
Variable Rate Notes - *Securities Lending*	51,747	51,747	-	-	-	0.1
Subtotal for GASB Categories	16,539,776	$ 741,264	$ 6,436,497	$ 3,191,000	$ 1,203,767	
Investments Not Categorized						
Commingled Index Funds - Domestic	15,534,720					
Commingled Index Funds - Foreign	2,665,034					
Commingled Balanced Funds - Domestic	255,689					
Currencies	27,340					
Guaranteed Investment Contracts	653,019					
Life Annuity	35					
Money Market Funds	1,574,220					
Mutual Funds	2,552,852					
Private Equity	6,882,920					
Real Estate	4,412,896					
Subtotal for Investments Not Categorized	34,558,725					
Securities On Loan - Domestic	3,417,172					
Securities On Loan - Foreign	832,242					
Total Investments - 6/30/2005	$ 55,347,915					

Quality Ratings
(Moody's Equivalent)
(expressed in thousands)

Investment Type	Fair Value	P-1	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1 and below	Unrated
Asset Backed Securities	$ 29,898	$ -	$ 29,898	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Certificates of Deposit - *Securities Lending*	11,947	11,947	-	-	-	-	-	-	-	-	-
Collateralized Mortgage Backed Securities	404,561	-	381,785	22,776							
Corporate Bonds-Domestic	4,025,760	-	404,565	21,350	201,341	416,369	493,182	258,328	248,635	1,981,990	-
Corporate Stock-Foreign	4,967,248	-	-	-	-	-	-	-	-	-	4,967,248
Government Securities-Domestic:											
U.S. Government Treasuries	784,328	-	784,328	-	-	-	-	-	-	-	-
Treasury Inflation Protected Securities	2,370,935	-	2,370,935	-	-	-	-	-	-	-	-
Mortgages:											
Collateralized Mortgage Obligations	971,681	-	971,681	-	-	-	-	-	-	-	-
Pass Throughs	2,532,160	-	2,532,160	-	-	-	-	-	-	-	-
Non-Standard Mortgages	5,327	-	5,327	-	-	-	-	-	-	-	-
Repurchase Agreements - *Securities Lending*	50,297	43,942	6,355	-	-	-	-	-	-	-	-
Variable Rate Notes	333,887	-	-	-	69,964	114,552	26,925	50,021	29,846	42,579	-
Variable Rate Notes - *Securities Lending*	51,747	-	51,747	-	-	-	-	-	-	-	-
	$16,539,776	$55,889	$7,538,781	$44,126	$271,305	$530,921	$520,107	$308,349	$278,481	$2,024,569	$4,967,248

Investments-Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The WSIB does not have a formal policy to limit foreign currency risk. The WSIB manages its exposure to fair value loss by requiring its international securities investment managers to maintain diversified portfolios by sector and by issuer to limit foreign currency and security risk. Risk of loss arises from changes in currency exchange rates. DRS' exposure to foreign currency risk as of June 30, 2005, is presented in the schedule on page 43. The schedule provides information on deposits and investments held in various foreign currencies, which are stated in U.S. dollars. The Pension Trust Funds also had $2,665.0 million invested in an international commingled equity index fund. As such, these currency denominations are not presented in this schedule.

Foreign Currency Risk

(expressed in thousands)

	Investment Type				
Foreign Currency Denomination	**Currencies & Money Market Funds**	**Equity**	**Private Equity**	**Real Estate**	**Total**
Australia - Dollar	$885	$228,325	$-	$-	$229,210
Austria - Schilling	-	60,753	-	-	60,753
Belgium - Franc	-	68,895	-	-	68,895
Brazil - Real	12	42,863	-	-	42,875
Britain - Pound	6,442	873,611	103,267	55,410	1,038,730
Bulgaria - Lev	8	-	-	-	8
Canada - Dollar	763	181,127	14,428	9,137	205,455
Chinese - Yuan	-	-	-	1,827	1,827
Czech - Kroner	-	-	-	258	258
Denmark - Krone	816	32,068	-	-	32,884
E.M.U. - Euro	11,475	64,252	546,324	209,015	831,066
Egypt - Pound	-	3,896	-	-	3,896
Finland - Markka	-	61,274	-	-	61,274
France - Franc	-	472,995	984	-	473,979
Germany - Mark	-	336,276	-	-	336,276
Greece - Drachma	-	23,490	-	-	23,490
Hong Kong - Dollar	718	101,532	-	13,607	115,857
Hungary - Forint	-	13,193	-	2,578	15,771
Indonesia - Rupiah	35	6,916	-	-	6,951
Ireland - Punt	-	5,955	-	-	5,955
Italy - Lira	-	168,822	-	-	168,822
Japan - Yen	3,821	887,927	-	221,683	1,113,431
Korean - Won	-	-	-	7,434	7,434
Lithuania - Litas	-	194	-	-	194
Malaysia - Ringgit	-	2,210	-	-	2,210
Mexico - Peso	(22)	21,250	-	89,773	111,001
Netherland - Guilder	-	253,360	-	-	253,360
New Zealand - Dollar	16	18,668	-	-	18,684
Norway - Krone	211	127,053	-	-	127,264
Pakistan - Rupee	1	13,896	-	-	13,897
Philippines - Peso	21	1,341	-	-	1,362
Poland - Zloty	-	27,738	-	1,031	28,769
Portugal - Escudo	-	4,610	-	-	4,610
Singapore - Dollar	558	35,829	-	-	36,387
South Africa - Rand	-	20,005	-	-	20,005
South Korea - Won	1	31,866	-	-	31,867
Spain - Peseta	-	229,182	-	-	229,182
Sweden - Krona	414	153,895	91,926	-	246,235
Switzerland - Franc	1,163	224,641	-	-	225,804
Taiwan - Dollar	-	-	-	2,492	2,492
Thai - Baht	-	-	-	281	281
Turkey - Lira	2	26,216	-	-	26,218
Total	**$27,340**	**$4,826,124**	**$756,929**	**$614,526**	**$6,224,919**

Securities Lending: Securities lending management responsibilities as authorized by statute are as follows:

WSIB—State law and Board policy permit the WSIB to participate in securities lending transactions to augment investment income. The Board has entered into an agreement with State Street Bank and Trust (SSB) to act as agent for the WSIB in securities lending transactions. As SSB is the custodian bank for the WSIB, it is a counterparty to securities lending transactions. In accordance with GASB Statement No. 28, the WSIB reports securities lent (the underlying securities) as assets in the statement of net assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if the WSIB has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the statement of net assets. Securities lending transactions collateralized by securities that the WSIB does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Securities were loaned and collateralized by the WSIB's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities were denominated in United States dollars, were securities whose primary trading market was located in the United States or were sovereign debt issued by foreign governments, the collateral requirement was 102 percent of the market value of the securities loaned. When the loaned securities were not denominated in United States dollars or were securities whose primary trading market was not located in the United States, the collateral requirement was 105 percent of the market value of the loaned securities.

Custodial Credit Risk: At June 30, 2005, the market value of securities on loan was $4,249.4 million. The corresponding collateral held totalled $4,357.1 million and was comprised of securities held in the WSIB's own Short-Term Investment Fund. As such, these securities are not subject to custodial credit risk.

During Fiscal Year 2005, securities lending transactions could be terminated on demand by either the WSIB or the borrower. The average term of overall loans was 26 days.

Cash collateral was invested by the WSIB's agents in securities issued or guaranteed by the U.S. government, the WSIB's short term investment pool (average weighted maturity of 266 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. SSB indemnified the WSIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. SSB's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2005, there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the WSIB incurred no losses during Fiscal Year 2005 resulting from a default by either the borrowers or the securities lending agents.

OST—Statute authorizes the OST to buy and sell the following types of instruments: U.S. government and agency securities, banker's acceptances, commercial paper, and certificates of deposit with qualified public depositories. Securities underlying repurchase and reverse repurchase agreements are limited to those stated above.

The OST has statutory authority to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST has contracted with a third party securities lending agent, The Bank of New York, to lend the OST's U.S. government and agency securities portfolio. The agent lends securities for collateral in the form of cash or other securities at 102 percent of the loaned securities value. The collateral for the loans is maintained at 102 percent.

Credit Risk: The OST limits its credit risk with an investment policy that restricts the types of investments in which the OST can participate. Additionally, the OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. At June 30, 2005, OST has no credit risk exposure to borrowers because the amounts the OST owes borrowers exceeds the amounts that the borrowers owe the OST. The contract with the agent requires it to indemnify the OST if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or if the borrower fails to pay OST for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand by either the OST or the borrower. Cash collateral is invested in accordance with the investment guidelines approved by the OST. The OST cannot pledge or sell collateral securities received unless the borrower defaults. Generally, the maturity of the securities on loan is matched with the term of the investment of the cash collateral. On June 30, 2005, the average life of both the loans and the investment of cash collateral received as collateral was one day.

Custodial Credit Risk: The OST investment policy requires that securities purchased be held by the master custodian, acting as an independent third party, in its safekeeping or trust department. Securities accepted as collateral for repurchase agreements are subject to additional restrictions. These restrictions are designed to limit the OST's exposure to risk and insure the safety of the investment.

During Fiscal Year 2005, there were no violations of legal or contractual provisions nor any losses resulting from a default by either the borrowers or the securities lending agent.

Derivatives: WSIB is authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. The WSIB mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Consistent with the WSIB authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2005 or 2004. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use, and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2005, the only derivative securities held directly by WSIB were collateralized mortgage obligations of $971.7 million.

Certain investment types in DRS' portfolio cannot be categorized within the guidelines established by GASB Statement Number 3. These investments total approximately $34.6 billion in both carrying value and fair value.

There were approximately $50.3 million repurchase agreements outstanding at June 30, 2005. Repurchase agreements are collateralized at 102 percent. The collateral is priced daily and held by DRS' agent in DRS' name. Repurchase agreements outstanding as of June 30, 2005 are typical of the level of activity during the year.

State law permits DRS to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, DRS would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during the year and there were no liabilities outstanding as of June 30, 2005.

Management Fees: The fees paid by the WSIB are accounted for as a reduction of investment income to the trust funds. These fees include investment management fees and commissions, investment consultant fees, and legal fees. As of June 30, 2005, total investment management fees were $113.0 million. For a detailed disclosure, refer to the Schedule of Investment Expenses in the Financial Section of this report.

Unfunded Commitments: The WSIB has entered into agreements that commit the DRS pension funds, upon request, to make additional investment purchases up to a stated amount. As of June 30, 2005, the DRS pension funds had the following unfunded investment commitments in millions of dollars:

Private Equity Partnerships	$5,036.2
Real Estate	$826.0

G. Reserves

Member Reserves: The member reserves reflect the total liability for all contributions made by members. These reserves are increased by employee contributions and interest earnings and are decreased by contributions refunded and contributions transferred to the benefit reserves for current year retirees. The member reserves are considered fully funded.

Because the PERS Plan 3, SERS Plan 3 and TRS Plan 3 defined contribution plans each offer two separate investment programs to members, DRS is required to maintain two separate member reserves for each defined contribution plan. The "PERS Plan 3–WSIB," "SERS Plan 3–WSIB," and "TRS Plan 3–WSIB" reserves account for members who participate in the investment programs offered by the Washington State Investment Board (WSIB). The "PERS Plan 3–SELF," "SERS Plan 3–SELF," and "TRS Plan 3–SELF" reserves account for members who participate in the self-directed investment offerings established by the Employee Retirement Benefits Board (ERBB).

Member reserves as of June 30, 2005 and 2004 are as follows:

	June 30, 2005 (expressed in thousands)	June 30, 2004
PERS Plan 1	$1,457,906	$1,523,446
PERS Plan 2/3	3,341,156	3,215,444
PERS Plan 3-WSIB	515,776	430,570
PERS Plan 3-SELF	428,878	396,554
SERS Plan 2/3	216,027	208,607
SERS Plan 3-WSIB	524,080	443,001
SERS Plan 3-SELF	205,318	191,041
TRS Plan 1	1,113,788	1,181,814
TRS Plan 2/3	392,290	381,773
TRS Plan 3-WSIB	1,468,496	1,203,920
TRS Plan 3-SELF	1,194,511	1,069,962
LEOFF Plan 1	94,633	106,753
LEOFF Plan 2	1,000,804	915,700
WSPRS Plan 1/2	51,563	52,410
JRS	4,098	5,131
Judges	-	-
Total Member Reserves	$12,009,324	$11,326,126

Benefit Reserves: The benefit reserves reflect the funded liability associated with all retired members of DRS administered systems. These reserves are increased by employer contributions, state contributions, investment earnings, and employee contributions which are attributable to current year retirees. These reserves are decreased by the amounts of pensions actually paid in the current year, interest payments transferred to the member reserves, and administrative expenses in support of the trust funds.

Benefit reserves as of June 30, 2005 and 2004 are as follows:

	June 30, 2005	June 30, 2004
	(expressed in thousands)	
PERS Plan 1	$8,115,143	$7,692,486
PERS Plan 2/3	8,733,118	7,432,224
SERS Plan 2/3	1,499,628	1,301,460
TRS Plan 1	6,984,038	6,625,545
TRS Plan 2/3	3,864,322	3,357,008
LEOFF Plan 1	4,938,445	4,602,142
LEOFF Plan 2	2,410,864	2,011,038
WSPRS Plan 1/2	672,082	611,474
JRS	(1,741)	(389)
Judges	4,293	4,375
Total Benefit Reserves	$37,220,192	$33,637,363

The funded status of each of the benefit reserves is the same as the funded status of each of the respective pension plans. The funded status of the pension plans is shown in the Solvency Test schedules in the Actuarial Section of this report.

H. Capital Assets

All capital assets with a unit cost (including ancillary costs) of $5,000 or greater are capitalized and reported in the accompanying financial statements. Capital leases with a net present value or fair market value, whichever is less, of $10,000 or more are capitalized and also included in these financial statements. All purchased capital assets are valued at cost where historical records exist. Donated capital assets are valued at their estimated fair market value on the date of donation. Where necessary, estimates of original cost and fair market value are derived by factoring price levels from the current period to the time of acquisition.

Capital asset costs include the purchase price or construction cost, plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of the asset are not capitalized.

Depreciation is calculated using the straight-line method with estimated useful lives of 5 to 50 years for buildings, and 3 to 50 years for furnishings and equipment, other improvements, and miscellaneous capital assets.

Following is a summary of changes in capital assets for Fiscal Year 2005:

Assets	Beginning Balance	Acquisition/ Increase Depreciation	Disposal	Ending Balance
(expressed in thousands)				
Improvements Other Than Buildings	$ 554	$ 611	$(531)	$ 634
Furnishings & Equipment	2,224	113	(140)	2,197
Accumulated Depreciation	(1,702)	(469)	124	(2,047)
Total	$ 1,076	$ 255	$ (547)	$ 784

I. Leases

DRS leases land, office facilities, office and computer equipment. Lease terms vary. Leases are considered non-cancelable for financial reporting purposes. All DRS leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Certain operating leases are renewable for specified periods. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following schedule presents future minimum payments for operating leases as of June 30, 2005:

		Operating Leases (expressed in thousands)
By Fiscal Year:		
	2006	$1,255
	2007	1,270
	2008	1,227
	2009	698
Total Future Minimum Payments		$4,450

The total operating lease rental expenditure for Fiscal Year 2005 was $1.3 million.

J. Other Long-Term Obligations

Annual Leave: DRS employees accrue annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 30 days at the employee's anniversary date. The expense and accrued liability is recognized when the annual leave is earned. DRS' liability for accumulated annual leave was $0.8 million as of June 30, 2005.

Sick Leave: Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested; i.e., the department does not pay employees for unused sick leave upon termination except upon employee death or retirement, at which time DRS is liable for 25 percent of the employee's accumulated sick leave. In addition, the department has a "sick leave buyout option" in which each January, employees who accumulate sick leave in excess of 60 days may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave. The expense and accrued liability is recognized when the sick leave is earned. DRS' liability for accumulated sick leave was $0.3 million as of June 30, 2005.

Following is a summary of changes in compensated absences for the fiduciary funds for Fiscal Year 2005:

Compensated Absences	Beginning Balance	Additions	Deletions	Ending Balance
(expressed in thousands)				
Annual Leave	$855	$971	$988	$838
Sick Leave	326	146	164	308
Total	$1,181	$1,117	$1,152	$1,146

K. Transfers

Transfers to and from other pension plans, as reported in the financial statements, reflect routine transfers among the various trust funds resulting from plan membership changes and member-directed defined contribution plan selections.

Transfers to the State General Fund are operating state budget transfers authorized by ESHB 2459, Chapter 276, Laws of 2004, pursuant to RCW 43.135.035(5). The transfer made in Fiscal Year 2004 has been re-classified to conform with Fiscal Year 2005 presentation.

Note 2: General Description of the Retirement Systems

A. General

The Department of Retirement Systems (DRS) administers retirement systems covering eligible employees of the state and local governments. The state Legislature establishes laws pertaining to the creation and administration of all public retirement systems, and the Governor appoints the Director of DRS to manage the systems. Information pertinent to each system is provided later in this section.

As established in the Revised Code of Washington (RCW) chapter 41.50, DRS administers seven retirement systems comprising 11 defined benefit pension plans and three combination defined benefit/defined contribution plans as follows:

Public Employees' Retirement System (PERS)
- Plan 1—defined benefit
- Plan 2—defined benefit
- Plan 3—defined benefit/defined contribution

School Employees' Retirement System (SERS)
- Plan 2—defined benefit
- Plan 3—defined benefit/defined contribution

Teachers' Retirement System (TRS)
- Plan 1—defined benefit
- Plan 2—defined benefit
- Plan 3—defined benefit/defined contribution

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)
- Plan 1—defined benefit
- Plan 2—defined benefit

Washington State Patrol Retirement System (WSPRS)
- Plan 1—defined benefit
- Plan 2—defined benefit

Judicial Retirement System (JRS)
- Defined benefit

Judges' Retirement Fund (Judges)
- Defined benefit

Administration of the PERS, SERS, TRS, and LEOFF systems and plans was funded by an employer rate of .19 percent of employee salaries. Administration of the WSPRS, JRS, and Judges' plans was funded by means of legislative appropriations.

Number of Participating Members

Plan	Retirees and Beneficiaries Receiving Benefits	Terminated Members Entitled to But Not Yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total
PERS Plan 1	54,568	2,993	16,605	1,224	75,390
PERS Plan 2	12,106	16,754	76,987	41,585	147,432
PERS Plan 3	222	1,284	9,447	10,408	21,361
SERS Plan 2	1,097	2,428	15,880	4,544	23,949
SERS Plan 3	481	2,035	11,060	18,370	31,946
TRS Plan 1	34,624	1,475	9,617	245	45,961
TRS Plan 2	1,127	2,510	6,835	635	11,107
TRS Plan 3	541	2,761	19,979	29,323	52,604
LEOFF Plan 1	8,110	7	848	-	8,965
LEOFF Plan 2	432	521	11,231	3,523	15,707
WSPRS Plan 1	762	100	855	142	1,859
WSPRS Plan 2	-	-	-	60	60
JRS	127	2	19	-	148
Judges	16	-	-	-	16
Total	114,213	32,870	179,363	110,059	436,505

The latest actuarial valuation date for all plans was September 30, 2004.

Source: Washington State Office of the State Actuary

Number of Participating Employers

Plan	State Agencies	School Districts	Counties/ Municipalities	Other Political Subdivisions	Total
PERS Plan 1	153	241	202	230	826
PERS Plan 2	167	-	270	454	891
PERS Plan 3	148	-	183	233	564
SERS Plan 2	9	289	-	-	298
SERS Plan 3	10	289	-	-	299
TRS Plan 1	81	281	-	-	362
TRS Plan 2	33	270	-	-	303
TRS Plan 3	40	292	-	-	332
LEOFF Plan 1	-	-	91	20	111
LEOFF Plan 2	8	-	220	141	369
WSPRS Plan 1	1	-	-	-	1
WSPRS Plan 2	1	-	-	-	1
JRS	3	-	-	-	3
Judges	-	-	-	-	-
Total	654	1,662	966	1,078	4,360

Employers can participate in multiple systems and/or plans. The actual total number of participating employers as of June 30, 2005 is 1,277.

For a listing of the covered employers, refer to the Statistical Section of this report.

B. Plan Descriptions

Public Employees' Retirement System (PERS): PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3.

PERS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2005, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PERS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS defined contribution benefits are financed from employee contributions and investment earnings. Employees in PERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from PERS-covered employment.

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs such as Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF); judges of district and municipal courts; and employees of local governments. The higher education retirement plans are not administered by DRS. Approximately 51 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is 2 percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.)

PERS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. See section D of Note 2 for a description of the defined contribution component of PERS Plan 3.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Legislation passed in the 2004 session, effective July 1, 2004, provides a $1,000 minimum monthly benefit to PERS Plan 1 members and establishes an asset smoothing corridor for actuarial valuations used in the funding of the state retirement systems.

Legislation passed in the 2005 session, effective April 21, 2005, allows PERS 2/3 members to opt out of plan membership if deemed to be terminally ill, with less than five years to live; and, effective May 3, 2005, allows PERS Plan 1 members to receive credit for military service while actively serving in the military, if such credit makes them eligible to retire.

PERS pension benefit provisions have been established by chapter 41.40 RCW.

School Employees' Retirement System (SERS): SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes: Plan 2 is a defined benefit plan and Plan 3 is a combination defined benefit/defined contribution plan. As of September 1, 2000, the membership of classified school employees in PERS Plan 2 was transferred to SERS Plan 2. Those who joined on or after October 1, 1977 and by August 31, 2000 are SERS Plan 2 members unless they exercised an option to transfer their membership to Plan 3. SERS participants joining the system on or after September 1, 2000, and those who exercised their transfer option, are members of SERS Plan 3.

SERS is comprised of two separate plans for accounting purposes: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

SERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the SERS Plan 2 defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2005, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in SERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from SERS-covered employment. SERS defined contribution benefits are financed from employee contributions and investment earnings. Employees in SERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from SERS-covered employment.

Membership in the system includes classified employees of school districts or educational service districts. SERS is comprised principally of non-state-agency employees. SERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

SERS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation (AFC) per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to September 1, 2000. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. See section D of Note 2 for a description of the defined contribution component of SERS Plan 3.

SERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Legislation passed in the 2004 session, effective July 1, 2004, establishes an asset smoothing corridor for actuarial valuations used in the funding of the state retirement systems.

Legislation passed in the 2005 session, effective April 21, 2005, allows SERS members to opt out of plan membership if deemed to be terminally ill, with less than five years to live.

There were no other material changes in SERS benefit provisions for the fiscal year ended June 30, 2005.

SERS pension benefit provisions have been established by chapter 41.35 RCW.

Teachers' Retirement System (TRS): TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. TRS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by June 30, 1996 are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3.

TRS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the TRS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2005, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in TRS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment. TRS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in TRS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from TRS-covered employment.

TRS was legislatively established in 1938. Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity. TRS is comprised principally of non-state-ageny employees. TRS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

TRS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during the highest of any consecutive two compensation contract years), capped at 60 percent.

TRS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in TRS Plan 2 by July 1, 1996 and transferred to Plan 3. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. See section D of Note 2 for a description of the defined contribution component of TRS Plan 3.

TRS Plan 1 provides death and temporary disability benefits. TRS Plan 1 members receive the following additional lump sum death benefits: retired members-$400 (if retired with ten years of full-time membership), $400 (if inactive with ten years of membership), active members-$600 (if employed full-time at time of death). Members on temporary disability receive a monthly payment of $180 payable for up to two years, for the same occurrence. After five years of service, members on a disability retirement receive an allowance based on their salary and service to date of disability. Members enrolled in TRS prior to April 25, 1973, may elect a benefit based on the formula in effect at that time.

TRS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3, the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Legislation passed in the 2003 session provides a $150,000 death benefit to the estate of an employee of schools, higher education and state agencies who dies in the line of service, if found eligible by the Department of Labor and Industries.

Legislation passed in 2004, effective July 1, 2004, established a $1,000 minimum monthly benefit for TRS 1 members who have at least 25 years of service and who have been retired at least 20 years. The new minimum amount remains in effect until the original benefit calculation, plus annual cost of living increases, exceeds $1,000.

Legislation passed in 2005, effective April 21, 2005, allows TRS 2/3 members to opt out of plan membership if deemed to be terminally ill, with less than five years to live.

There were no other material changes in TRS benefit provisions for the fiscal year ended June 30, 2005.

TRS pension benefit provisions have been established by chapters 41.32 and 41.34 RCW.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF): LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003, being an exception. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan. LEOFF retirement benefit provisions are established in state statute and may be amended by the state Legislature.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2005, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in LEOFF Plan 1 and 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of FAS
20+	2.0%
10 - 19	1.5%
5 - 9	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of FAS. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

LEOFF Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service (FAS is based on the highest consecutive 60 months). Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 1 provides death and disability benefits. Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS. In addition, a duty death benefit of $150,000 is provided to Plan 1 and Plan 2 members.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, and to reflect the choice of a survivor option.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least 10 percent of final average salary and two percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax. The line-duty disability benefit applies to all LEOFF Plan 2 members disabled in the line of duty on or after January 1, 2001.

Legislation passed in the 2005 session, effective May 13, 2005, removed the actuarial reduction for the difference between age 53 and the age at retirement, if the disability was incurred in the line of duty.

There were no other material changes in LEOFF benefit provisions for the year ended June 30, 2005.

LEOFF pension benefit provisions have been established by chapter 41.26 RCW.

Washington State Patrol Retirement System (WSPRS): WSPRS is a single-employer defined benefit retirement system. WSPRS participants who joined the system by December 31, 2002 are Plan 1 members. Those who joined on or after January 1, 2003 are Plan 2 members. For financial reporting and investment purposes, however, both plans are accounted for in the same pension fund.

WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to WSPRS accrue interest at a rate specified by DRS. During Fiscal Year 2005, the DRS-established rate on employee contributions was 5.5 percent annually, compounded monthly. Employees in WSPRS can elect to withdraw total employee contributions and interest earnings upon separation from WSPRS-covered employment.

WSPRS was established by the Legislature in 1947. Any commissioned employee of the Washington State Patrol is eligible to participate. WSPRS benefits are established in state statute and may be amended only by the state Legislature.
WSPRS retirement benefits are vested after an employee completes five years of eligible service. Members are eligible

for retirement at the age of 55 with five years of service, or after 25 years of service. The annual pension is 2 percent of the average final salary (AFS), capped at 75 percent, per year of service. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

WSPRS benefit provisions include death benefits; however, the system provides no disability benefits. Disability benefits may be available from the Washington State Patrol. If disability benefits are received, the member may be eligible to acquire service credit for the period of disability. In addition, a duty death benefit of $150,000 is provided to WSPRS members.

For WSPRS Plan 1 members, AFS is based on the average of the two highest-paid service credit years and excludes voluntary overtime. Death benefits for these members, if on active duty, consist of the following: (1) If eligible spouse, 50 percent of the AFS, plus 5 percent of the AFS for each surviving child, with a limitation on the combined allowances of 60 percent of the AFS; or (2) If no eligible spouse, 30 percent of AFS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of AFS.

For WSPRS Plan 2 members, AFS is based on the average of the five consecutive highest-paid service credit years and excludes both voluntary overtime and cash-outs of annual and holiday leave. At retirement, these members also have the option of selecting an actuarially reduced benefit in order to provide for post-retirement survivor benefits. Death benefits for these members, if on active duty, consist of the following: (1) If the member is single or has less than 10 years of service, the return of the member's accumulated contributions; or (2) If the member is married, has an eligible child, or has completed 10 years of service, a reduced benefit allowance reflecting a joint and 100 percent survivor option or 150 percent of the member's accumulated contributions, at the survivor's option.

Beneficiaries of a WSPRS Plan 2 member with 10 years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

There were no material changes in WSPRS benefit provisions for the fiscal year ended June 30, 2005.

WSPRS pension benefit provisions have been established by chapter 43.43 RCW.

Judicial Retirement System (JRS): JRS is an agent multiple-employer retirement system comprised of a single defined benefit plan. JRS retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings, employer contributions, employee contributions, and a special funding situation in which the state pays the remaining contributions.

JRS was established by the Legislature in 1971. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971. The system was closed to new entrants on July 1, 1988, with new judges joining PERS Plan 2. JRS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

During Fiscal Year 2005, the DRS-established rate on employee contributions was 5.5 percent, compounded quarterly. JRS employees who are vested in the plan may not elect to withdraw their contributions upon termination. However, any JRS member that left the system before July 1, 1988, or his/her spouse, who was ineligible to receive a benefit at that time, may apply and receive a refund of such contributions from DRS, if said contributions have not been already refunded via a sundry claims appropriation from the state legislature.

JRS members are eligible for retirement at the age of 60 with 15 years of service, or at the age of 60 after 12 years of service (if the member left office involuntarily) with at least 15 years after beginning judicial service.

The benefit per year of service calculated as a percent of average final compensation (AFC) is as follows:

Term of Service	Percent of AFC
15+	3.5%
10 - 14	3.0%

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires ten or more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit a member would have received if retired. If the member is retired, the surviving spouse receives the greater of 50 percent of the member's retirement benefit or 25 percent of the AFC. For members with ten or more years of service, a disability benefit of 50 percent of AFC is provided.

There were no material changes in JRS benefit provisions for the fiscal year ended June 30, 2005.

JRS pension benefit provisions have been established by chapter 2.10 RCW.

Judges' Retirement Fund: The Judges' Retirement Fund is an agent multiple-employer retirement system comprised of a single defined benefit plan. There are currently no active members in his plan. Retirement benefits are financed on a pay-as-you-go basis from a combination of past employee and employer contributions, and a special funding situation in which the state contributes to the plan. Retirees did not earn interest on their contributions, nor could they elect to withdraw their contributions upon termination.

The Judges' Retirement Fund was created by the Legislature on March 22, 1937, pursuant to RCW 2.12, to provide retirement benefits to judges of the Supreme Court, Court of Appeals, or Superior Courts of the state of Washington. Subsequent legislation required that all judges first appointed or elected to office on or after August 9, 1971, enter the Judicial Retirement System. Judges' retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

Judges' members are eligible for retirement at the age of 70 with ten years of service, or at any age with 18 years of service. Members are eligible to receive a partial retirement allowance after 12 years of credited service as a judge. With the exception of a partial retirement allowance, the member receives a benefit equal to one-half of the monthly salary being received as a judge at the time of retirement, or at the end of the term immediately prior to retirement if retirement occurs after the expiration of the member's term in office. A partial retirement allowance is based on the proportion of the member's 12 or more years of service in relation to 18 years of service.

There were no material changes in Judges' benefit provisions for the fiscal year ended June 30, 2005.

Pension benefit provisions have been established by chapter 2.12 RCW.

C. Funding Policy

PERS: Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for State agencies and local government unit employees, and at 7.5 percent for State government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2005 were as follows:

PERS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Employer Rates:			
State Agencies*	1.38%	1.38%	1.38% **
Local Governmental Units*	1.38%	1.38%	1.38% **
State Government Elected Officials*	1.98%	1.38%	1.38% **
Employee Rates:			
State Agencies	6.00%	1.18%	***
Local Governmental Units	6.00%	1.18%	***
State Government Elected Officials	7.50%	1.18%	***

*Includes an administrative expense rate of 0.19 percent.
**Plan 3 defined benefit portion only.

SERS: Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. SERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of SERS Plan 3 do not contribute to the defined benefit portion of SERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.35 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2005 were as follows:

SERS Actual Contribution Rates

	Plan 2	Plan 3
Employer Rates:		
State Agencies*	1.04%	1.04% **
Local Governmental Units*	1.04%	1.04% **
Employee Rates:		
State Agencies	0.85%	***
Local Governmental Units	0.85%	***

*Includes an administrative expense rate of 0.19 percent.
** Plan 3 defined benefit portion only.
***Variable from 5% to 15% based on rate selected by the member.

TRS: Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for State agencies and local government unit employees, and at 7.5 percent for State elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under TRS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2005 were as follows:

TRS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Employer Rates*	1.37%	1.37%	1.37% **
Employee Rates:			
State Agencies	6.00%	0.87%	***
Local Governmental Units	6.00%	0.87%	***
State Government Elected Officials	7.50%	0.87%	***

*Includes an administrative expense rate of 0.19 percent.
**Plan 3 defined benefit portion only.
***Variable from 5% to 15% based on rate selected by the member.

LEOFF: Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF 2 Board in accordance with chapter 41.45 RCW. All employers are required to contribute at the level required by state law.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2005 were as follows:

LEOFF Actual Contribution Rates

	Plan 1	Plan 2
Employer Rates:		
Cities, Counties, Fire Districts, etc.*	0.19%	3.25%
Ports and Universities*	n/a	5.28%
Employee Rates:		
Cities, Counties, Fire Districts, etc.	--	5.09%
Ports and Universities	n/a	5.09%
State of Washington Contributions	n/a	2.03%

*Includes an administrative expense rate of 0.19 percent.

The Legislature has the ability, by means of a special funding arrangement, to appropriate money from the state General Fund to supplement the current service liability and fund the prior service costs of Plans 1 and 2 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For Fiscal Year 2005, the state contributed $21.3 million to LEOFF Plan 2.

WSPRS: State statute (chapter 43.43 RCW) obligates employees to contribute at a fixed rate of 2 percent for Fiscal Year 2005. Contribution rates for the employee and the state are adopted by the Pension Funding Council as per chapter 41.45 RCW. The employee and the state are required to contribute at the level required by state statute.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2005 were as follows:

WSPRS Actual Contribution Rates

	Plan 1	Plan 2
Employer Rate	--	--
Employee Rate	2.00%	2.00%

JRS: Contributions made are based on rates set in chapter 2.10 RCW. By statute, employees are required to contribute 7.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the JRS on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2005, the state contributed $6.0 million.

Judges: Contributions made are based on rates set in chapter 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement fund on a pay-as-you-go basis. As of June 30, 2005, there are no active members remaining in the Judges Retirement Fund and member contributions are no longer collected. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2005, the state contributed $0.5 million.

D. Employer Contributions Required and Paid

The following table presents DRS' required contributions to cost-sharing plans in accordance with the funding policy. All contributions required by the funding method were paid.

	2005	2004	2003
(amounts expressed in thousands)			
PERS Plan 1	$ 20.7	$ 28.3	$ 26.9
PERS Plan 2/3	137.5	137.0	133.1
TRS Plan 1	0.5	0.6	0.5
Total	$ 158.7	$ 165.9	$ 160.5

E. Defined Contribution Plans

Public Employees' Retirement System Plan 3: The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through DRS. Eligible employees include: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs such as Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF); judges of district and municipal courts; and employees of local governments. PERS participants who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants who joined the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. As of June 30, 2005, there are 564 participating employers in PERS Plan 3. See section B of Note 2 for PERS plan descriptions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.40, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

Membership in PERS Plan 3 consisted of the following as of the latest actuarial valuation date of September 30, 2004:

Retirees and Beneficiaries Receiving Benefits	222
Terminated Plan Members Entitled to but Not Yet Receiving Benefits	1,284
Active Plan Members Vested	9,447
Active Plan Members Nonvested	10,408
Total	21,361

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For Fiscal Year 2005, employee contributions were $59.0 million, and plan refunds paid out were $25.5 million.

School Employees' Retirement System Plan 3: The School Employees' Retirement System (SERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through DRS. Eligible employees include classified employees of school districts and educational service districts who joined PERS Plan 2 on or after October 1, 1977 and by August 31, 2000, and were transferred to SERS Plan 2 on September 1, 2000. Members transferred from PERS Plan 2 to SERS Plan 2 may exercise an option to transfer their membership to SERS Plan 3. SERS participants joining the system on or after September 1, 2000, are also members of SERS Plan 3. As of June 30, 2005, there are 299 participating employers in SERS Plan 3. See section B of Note 2 for SERS plan descriptions.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.35, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of SERS Plan 3.

Membership in SERS Plan 3 consisted of the following as of the latest actuarial valuation date of September 30, 2004:

Retirees and Beneficiaries Receiving Benefits	481
Terminated Plan Members Entitled to but Not Yet Receiving Benefits	2,035
Active Plan Members Vested	11,060
Active Plan Members Nonvested	18,370
Total	31,946

SERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, SERS Plan 3 investments are made in the same portfolio as that of the SERS 2/3 defined benefit plan.

For Fiscal Year 2005, employee contributions were $46.7 million, and plan refunds paid out were $21.5 million.

Teachers' Retirement System Plan 3: The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through DRS. Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity. TRS participants who joined on or after October 1, 1977 and by June 30, 1996 are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3. As of June 30, 2005, there are 332 participating employers in TRS Plan 3. See section B of Note 2 for TRS plan descriptions.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.34, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

Membership in TRS Plan 3 consisted of the following as of the latest actuarial valuation date of September 30, 2004:

Retirees and Beneficiaries Receiving Benefits	541
Terminated Plan Members Entitled to but Not Yet Receiving Benefits	2,761
Active Plan Members Vested	19,979
Active Plan Members Nonvested	29,323
Total	52,604

TRS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, TRS Plan 3 investments are made in the same portfolio as that of the TRS 2/3 defined benefit plan.

For Fiscal Year 2005, employee contributions required and made were $183.6 million and plan refunds paid out were $35.6 million.

Judicial Retirement Account: The Judicial Retirement Account (JRA) was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state of Washington Administrative Office of the Courts, under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of the PERS for their services as a judge. Vesting is full and immediate. At June 30, 2005, there were 197 active members and 15 inactive members in JRA. There are three participating employers in JRA.

Plan members are required to contribute 2.5 percent of covered salary. The state, as employer, shall contribute an equal amount on a monthly basis. Contributions are collected by the Administrative Office of the Courts. The employer and employee obligations to contribute are established per RCW 2.14. Plan provisions and contribution requirements are established in state statute and may be amended only by the State Legislature.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. The administrator of JRA may adopt rules establishing other payment options. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation.

The Administrator of JRA has entered an agreement with DRS for accounting and reporting services, and the Washington State Investment Board (WSIB) for investment services. DRS shall be responsible for all record keeping, accounting, and reporting of member accounts. The WSIB shall have the full power to establish investment policy, develop participant investment options, and manage the investment funds from the JRA plan, consistent with the provisions of RCW 2.14.080 and RCW 43.84.150.

F. Deferred Compensation Plan

The state of Washington offers its employees and employees of those political subdivisions that elect to participate, a deferred compensation plan pursuant to RCW 41.50.770, in accordance with Internal Revenue Code section 457. Under the plan, eligible employees elect to defer a portion of their salary until future time periods. The deferred compensation is not available to employees until termination, retirement, disability, death or unforeseeable financial emergency. This deferred compensation plan is administered by DRS.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, shall be held in trust by the Washington State Investment Board (WSIB), as set forth under RCW 43.33A.030, for the exclusive benefit of the state deferred compensation plan's participants and their beneficiaries. Neither the participant, nor the participant's beneficiary or beneficiaries, nor any other designee, has any right to commute, sell, assign, transfer, or otherwise convey the right to receive any payments under the plan. These payments and rights thereto are nonassignable and nontransferable.

Employees participating in the state deferred compensation plan administered by DRS shall self-direct the investment of the deferred portion of their income through the selection of investment options. These options are provided by the WSIB after consultation with the Employee Retirement Benefits Board. The WSIB has the full power to invest moneys in the state deferred compensation plan in accordance with RCW 43.84.150, 43.33A.140, and 41.50.770. Pursuant to RCW 41.50.770, no state board, commission, agency, or any officer, employee or member thereof is liable for any loss or deficiency resulting from participant investments selected, or from reasonable efforts to implement investment directions.

The deferred compensation plan offers a stable principal Savings Pool and eleven other diversified investment options. The investment options consist of the following:

- Savings Pool
- Fidelity Equity-Income Fund
- Fidelity Growth Company Fund
- Fidelity Independence Fund
- International Stock Fund
- U.S. Small Stock Index Fund
- U.S. Stock Market Index Fund
- Washington State Bond Fund
- Washington State Long-Horizon Fund
- Washington State Mid-Horizon Fund
- Washington State Short-Horizon Fund
- Washington State Social Balanced Fund

More detailed information and discussion regarding investment strategies and an overview of investments in general can be obtained by contacting DRS.

G. Dependent Care Assistance Program

The state of Washington offers its employees a dependent care assistance program pursuant to RCW 41.04.600, in accordance with Internal Revenue Code Section 129. Under the program, eligible employees elect to reduce their taxable salary (before federal income and social security taxes) by amounts paid or incurred by the employer for dependent care assistance provided to the employee. This dependent care assistance program is administered by DRS.

Participation requires the employee to estimate the amount of dependent care expense he/she expects to incur during the plan year. The amount of salary reduction elected should not exceed those expenses. The reductions are taken in equal amounts each regular pay period and deposited into a dependent care account. Eligible expenses are charges for care of a qualifying person inside or outside the employee's home which enable the employee to work. If the eligible employee is married, the expenses must also occur while the employee's spouse is employed (or if the employee's spouse is a full-time student, on days the spouse attends school). Qualifying persons are as follows:

- Children under age 13 who qualify as IRS dependents;
- Any other IRS dependent who is physically and/or mentally incapable of self-care; or
- A spouse who is physically or mentally incapable of self-care.

Every action taken by DRS in administering the dependent care assistance program shall be presumed to be a fair and reasonable exercise of the authority vested in or the duties imposed upon it. DRS shall be presumed to have exercised reasonable care, diligence, and prudence and to have acted impartially as to all persons interested unless the contrary be proved by clear and convincing affirmative evidence.

Required Supplementary Information

Schedule of Funding Progress: PERS Plan 1

(dollars in millions)

	2004	2003	2002	2001	2000	1999
Actuarial Valuation Date	9/30/04	9/30/03	9/30/02	9/30/01	12/31/00	12/31/99
Actuarial Value of Plan Assets	$9,928	$10,227	$10,757	$10,990	$11,111	$10,456
Actuarial Accrued Liability	$12,855	$12,692	$12,560	$12,088	$11,695	$11,636
Unfunded Actuarial Liability	$2,927	$2,465	$1,803	$1,098	$584	$1,180
Percentage Funded	77%	81%	86%	91%	95%	90%
Covered Payroll	$863	$945	$1,023	$1,085	$1,132	$1,184
Unfunded Actuarial Liability as a Percentage of Covered Payroll	339%	261%	176%	101%	52%	100%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: TRS Plan 1

(dollars in millions)

	2004	2003	2002	2001	2000	1999
Actuarial Valuation Date	9/30/04	9/30/03	9/30/02	9/30/01	6/30/00	6/30/99
Actuarial Value of Plan Assets	$8,728	$9,086	$9,366	$9,342	$9,372	$8,696
Actuarial Accrued Liability	$10,401	$10,325	$10,235	$9,895	$9,566	$9,529
Unfunded Actuarial Liability	$1,673	$1,239	$869	$553	$194	$833
Percentage Funded	84%	88%	92%	94%	98%	91%
Covered Payroll	$616	$692	$741	$800	$957	$984
Unfunded Actuarial Liability as a Percentage of Covered Payroll	272%	179%	117%	69%	20%	85%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: LEOFF Plan 1

(dollars in millions)

	2004	2003	2002	2001	2000	1999
Actuarial Valuation Date	9/30/04	9/30/03	9/30/02	9/30/01	12/31/00	12/31/99
Actuarial Value of Plan Assets	$4,666	$4,803	$5,095	$5,369	$5,440	$5,150
Actuarial Accrued Liability	$4,266	$4,275	$4,259	$4,153	$4,002	$4,125
Unfunded Actuarial Liability	$(400)	$(528)	$(836)	$(1,216)	$(1,438)	$(1,025)
Percentage Funded	109%	112%	120%	129%	136%	125%
Covered Payroll	$64	$71	$80	$87	$95	$106
Unfunded Actuarial Liability as a Percentage of Covered Payroll	(625)%	(744)%	(1,045)%	(1,398)%	(1,514)%	(967)%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: JRS

(dollars in millions)

	2004	2003	2002	2001	2000	1999
Actuarial Valuation Date	9/30/04	9/30/03	9/30/02	9/30/01	12/31/00	12/31/99
Actuarial Value of Plan Assets	$4	$6	$8	$10	$10	$9
Actuarial Accrued Liability	$89	$91	$92	$92	$93	$94
Unfunded Actuarial Liability	$85	$85	$84	$82	$83	$85
Percentage Funded	4%	7%	9%	11%	11%	10%
Covered Payroll	$2.4	$2.6	$3.0	$3.0	$4 .0	$4 .0
Unfunded Actuarial Liability as a Percentage of Covered Payroll	3,542%	3,269%	2,800%	2,733%	2,075%	2,125%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: Judges

(dollars in millions)

	2004	2003	2002	2001	2000	1999
Actuarial Valuation Date	9/30/04	9/30/03	9/30/02	9/30/01	12/31/00	12/31/99
Actuarial Value of Plan Assets	$4.4	$4.5	$4.7	$4.9	$4.7	$4.4
Actuarial Accrued Liability	$4.7	$5.2	$5.5	$6 .0	$6 .1	$6 .4
Unfunded Actuarial Liability	$0.3	$0.7	$0.8	$1 .1	$1 .4	$2 .0
Percentage Funded	94%	87%	85%	82%	77%	69%
Covered Payroll	$-	$-	$0.1	$0.1	$0.1	$0.1
Unfunded Actuarial Liability as a Percentage of Covered Payroll	n/a	n/a	800%	1,100%	1,400%	2,000%

Source: Washington State Office of the State Actuary

Note on PERS Plan 2/3, SERS Plan 2/3, TRS Plan 2/3, LEOFF Plan 2, and WSPRS Plan 1/2: These plans use the aggregate actuarial cost method which does not separately amortize unfunded actuarial liabilities; therefore, schedules of funding progress are not presented for these plans.

Schedule of Contributions from Employers and Other Contributing Entities

The following schedule covers the fiscal years ended 2000-2005.

(dollars in millions)

	Annual Required Contribution*						Percentage Contributed					
	2005	2004	2003	2002	2001	2000	2005	2004	2003	2002	2001	2000
PERS Plan 1	$ 340.3	$ 295.1	$ 228.9	$ 164.3	$ 118.8	$ 199.2	7%	8%	25%	42%	153%	101%
PERS Plan 2/3	227.7	192.6	141.7	72.0	55.6	103.6	33%	36%	27%	71%	207%	98%
SERS Plan 2/3**	64.0	52.3	44.2	19.5	6.7	n/a	16%	17%	14%	58%	297%	n/a
TRS Plan 1	224.3	185.7	153.4	119.8	90.6	176.1	4%	6%	13%	50%	156%	104%
TRS Plan 2/3	117.4	96.2	79.5	66.7	40.4	56.2	29%	31%	23%	70%	172%	134%
LEOFF Plan 1	0.0	0.0	0.0	0.0	0.0	6.3	n/a	n/a	n/a	n/a	n/a	100%
LEOFF Plan 2	80.8	69.2	56.8	43.7	33.8	44.9	67%	74%	74%	91%	155%	96%
WSPRS Plan 1/2	3.4	2.6	0.0	0.0	0.0	0.0	0%	0%	n/a	n/a	n/a	n/a
JRS	21.7	18.5	16.2	14.2	13.3	12.5	29%	34%	38%	44%	55%	58%
Judges	0.1	0.2	0.1	0.2	0.2	0.3	500%	250%	300%	150%	400%	267%

* The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from those used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation) and different actuarial cost methods. For these reasons, the actual contributions will not match the Annual Required Contributions.

** SERS Plan 2/3 became effective on September 1, 2000

Source: Washington State Office of the State Actuary

Notes to the Required Supplementary Information
Defined Benefit Pension Plans
For the Fiscal Year Ended June 30, 2005

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated below. Additional information as of the latest valuation follows.

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3	SERS Plan 2/3
Valuation - Date	9/30/2004	9/30/2004	9/30/2004	9/30/2004	9/30/2004
Actuarial Cost Method	entry age	aggregate***	entry age	aggregate***	aggregate***
Amortization Method					
Funding	level %	n/a	level %	n/a	n/a
GASB	level $	n/a	level $	n/a	n/a
Remaining Amortization Period (Closed)	7/1/2007-6/30/2024	n/a	9/1/2007-6/30/2024	n/a	n/a
Asset Valuation Method	8-year graded smoothed fair value*	8-year graded smoothed fair value*	8-year graded smoothed fair value*	8-year graded smoothed fair value*	8-year graded smoothed fair value*
Actuarial Assumptions:					
Investment Rate of Return	8.00%	8.00%	8.00%	8.00%	8.00%
Projected Salary Increases					
Salary Inflation at 4.5%, Plus the Merit Increases Described Below:					
Initial Salary Merit (Grades Down to 0%)	6.1%	6.1%	6.2%	6.2%	7.0%
Merit Period (Years of Service)	17 yrs	17 yrs	17 yrs	17 yrs	17 yrs
Includes Inflation at	n/a	3.50%	n/a	3.50%	3.50%
Cost of Living Adjustments	Uniform COLA** Gainsharing COLA**	CPI increase, maximum 3%	Uniform COLA** Gainsharing COLA**	CPI increase, maximum 3%	CPI increase, maximum 3%

N/A indicates data not applicable

* Asset Valuation Method - 8 year smoothed fair value
The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years, the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last eight years, or if fewer, the completed years since adoption, at the following rates per year (annual recognition):

Annual Gain/Loss

Rate of Return	*Smoothing Period*	*Annual Recognition*	*Rate of Return*	*Smoothing Period*	*Annual Recognition*
15% and up	8 years	12.50%	6-7%	2 years	50.00%
14-15%	7 years	14.29%	5-6%	3 years	33.33%
13-14%	6 years	16.67%	4-5%	4 years	25.00%
12-13%	5 years	20.00%	3-4%	5 years	20.00%
11-12%	4 years	25.00%	2-3%	6 years	16.67%
10-11%	3 years	33.33%	1-2%	7 years	14.29%
9-10%	2 years	50.00%	1% and lower	8 years	12.50%
7-9%	1 year	100.00%			

Source: Washington State Office of the State Actuary

Chart continued on page 69

Chart continued from page 68

	LEOFF Plan 1	**LEOFF Plan 2**	**WSPRS Plan 1/2**	**Judicial**	**Judges**
	9/30/2004	9/30/2004	9/30/2004	9/30/2004	9/30/2004
	entry age	aggregate***	aggregate***	entry age****	entry age****
	level %	n/a	n/a	n/a	n/a
	level $	n/a	n/a	level $	level $
	6/30/2024 8-year graded smoothed fair value*	n/a 8-year graded smoothed fair value*	n/a 8-year graded smoothed fair value*	12/31/2008 market	12/31/2008 market
	8.00%	8.00%	8.00%	8.00%	8.00%
	11.7%	11.7%	6.0%	0.0%	0.0%
	21 yrs	21 yrs	20 yrs	n/a	n/a
	3.50% CPI increase	3.50% CPI increase, maximum 3%	3.50% CPI increase, maximum 3%	3.50% 3.00%	3.50% none

** The Uniform COLA and Gainsharing COLA

Generally, all retirees over age 66 receive an increase in their monthly benefit at least once a year. The Uniform COLA is added every July. The next Uniform COLA is calculated as the last Uniform COLA amount plus any Gainsharing COLA amount, all increased by 3%.

On 7/1/2000, it was ($0.77 + $0.28) x 1.03 = $1.08
On 7/1/2001, it was ($1.08 + $0.00) x 1.03 = $1.11
On 7/1/2002, it was ($1.11 + $0.00) x 1.03 = $1.14
On 7/1/2003, it was ($1.14 + $0.00) x 1.03 = $1.18
On 7/1/2004, it was ($1.18 + $0.00) x 1.03 = $1.21
On 7/1/2005, it was ($1.21 + $0.00) x 1.03 = $1.25

The Gainsharing COLA is added every even-numbered year if certain extraordinary investment gains are achieved.

On 1/1/2000, it was $0.28 per year of service.
On 1/1/2002 and 1/1/2004, no Gainsharing COLA was added.

*** The aggregate cost method does not identify or separately amortize unfunded actuarial accrued liabilities.

**** The entry age method uses pay-as-you-go as the basis for funding JRS and Judges.

Supporting Schedules

Schedule of Administrative Expenses
For the Year Ended June 30, 2005
(expressed in thousands)

	Retirement Pension Trust Funds	Deferred Compensation Pension Trust Fund	Dependent Care Administrative Special Revenue Fund	Totals June 30, 2005	Totals June 30, 2004
Current					
Personnel:					
Salaries and Wages	$10,497	$737	$97	$11,331	$11,351
Employee Benefits	2,577	199	26	2,802	2,654
Personal Service Contracts	1,039	26	-	1,065	1,148
Total Personnel Expenses	14,113	962	123	15,198	15,153
Goods and Services:					
Supplies and Materials	50	3	-	53	53
Communications	551	12	2	565	521
Utilities	97	8	1	106	98
Rental and Leases	1,166	98	12	1,276	1,218
Repairs and Alterations	115	2	-	117	113
Printing and Reproduction	313	22	12	347	296
Employee Professional Development and Training	131	3	-	134	116
Subscriptions	19	5	-	24	23
Facilities and Services	247	28	5	280	305
Data Processing Services	1,744	23	12	1,779	1,376
Attorney General Services	50	16	2	68	81
Personnel Services	72	6	1	79	51
Medical Consultant Services	74	-	-	74	59
Insurance	67	6	1	74	96
Other Contractual Services	1,500	72	1	1,573	2,352
Vehicle Maintenance	8	4	1	13	13
Actuary Services	1,170	-	-	1,170	1,142
Pension Funding Council Services	50	-	-	50	-
Audit Services	203	18	2	223	223
Archives and Records Management	44	4	1	49	49
Legal Fees	1,066	-	-	1,066	865
Bad Debts Expense	17	-	-	17	5
Fraudulent Collections	121	-	-	121	106
OWMBE Services	1	-	-	1	1
Other Goods and Services	32	2	-	34	30
Total Goods and Services	8,908	332	53	9,293	9,192
Miscellaneous Expenses:					
Travel	81	17	2	100	123
Noncapitalized Equipment	459	11	-	470	440
Grants, Benefits and Client Services	25	-	-	25	-
Total Miscellaneous Expenses	565	28	2	595	563
Total Current Expenses	23,586	1,322	178	25,086	24,908
Capital Outlays:					
Furnishings, Equipment and Software	95	16	2	113	271
Improvements Other than Buildings	73	6	1	80	23
Total Capital Outlays	168	22	3	193	294
Depreciation - Capital Assets	345	-	-	345	296
Total Administrative Expenses	$24,099	$1,344	$181	$25,624	$25,498

Schedule of Investment Expenses
Pension Trust Funds
For the Year Ended June 30, 2005
(expressed in thousands)

	Investment Management Expense
Public Equity Securities	
Passive Equity Managers	$ 242
International Active Equity Managers	6,629
International Passive Equity Managers	396
Equity Commissions Paid	7,290
Total Public Equity Securities	14,557
Alternative Investments	
Private Equity	800
Total Alternative Investments	800
Securities Lending	
Securities Lending Fees	8,177
Securities Lending Broker Rebates Paid	82,158
Total Securities Lending	90,335
Other Expenses	
Consultants and Advisors	863
Custodians	926
Legal Fees	166
PERS Plan 3 Management Fees	660
SERS Plan 3 Management Fees	1,874
TRS Plan 3 Management Fees	287
Deferred Compensation Management Fees	2,358
Miscellaneous Fees	25
OST Operating Costs	119
Total Other Expenses	7,278
Total Investment Expenses	$ 112,970

Schedule of Payments to Consultants
For the Year Ended June 30, 2005
(expressed in thousands)

	Commission/Fee
Communications	
Daniels Brown Communications	$ 3
JayRay	7
Rusty George Design	30
Total Communications	40
Computer/Technology	
Aetea Information Technology Inc.	166
Ajilon	150
Daniels Consulting	273
eiStream Viewstar, Inc.	205
ImageSource, Inc.	1
Logicalis, Inc.	27
Martin Analysis and Programming, Inc.	271
Milestone Technology	123
Precision Business Technologies, Inc.	13
Seitel Leeds & Associates, Inc.	3
Smith McCann Computer Resources, Inc.	141
Total Computer/Technology	1,373
Legal	
Dixie Cattell & Associates	7
Foster Pepper & Shefelman	113
Kathy Baros Freidt	1
Ice Miller Legal & Business Advisors	30
Lane Powell Sears Lubersky LLP	17
Total Legal	168
Management	
Basic Medical Training	1
Cost Effective Measurement, Inc.	25
Mercer Investment Consulting, Inc.	36
Milliman	50
Peterson Sullivan PLLC	49
Professional Personnel Services	96
Seattle Bookings	1
Total Management	258
Recordkeeping	
ICMA Retirement Corporation	850
Total Recordkeeping	850
Total Payments to Consultants	$ 2,689

For fees paid to investment professionals, refer to the Investment section of this report.

Statement of Changes in Assets and Liabilities
Dependent Care Agency Fund
For the Year Ended June 30, 2005
(expressed in thousands)

	Balance 07/01/04	Additions	Deductions	Balance 06/30/05
ASSETS				
Cash and Pooled Investments	$ 474	$ 4,507	$ 4,434	$ 547
Total Assets	$ 474	$ 4,507	$ 4,434	$ 547
LIABILITIES				
Accounts Payable	$ -	$ 4,429	$ 4,429	$ -
Other Short-Term Liabilities	474	4,507	4,434	547
Total Liabilities	$ 474	$ 8,936	$ 8,863	$ 547